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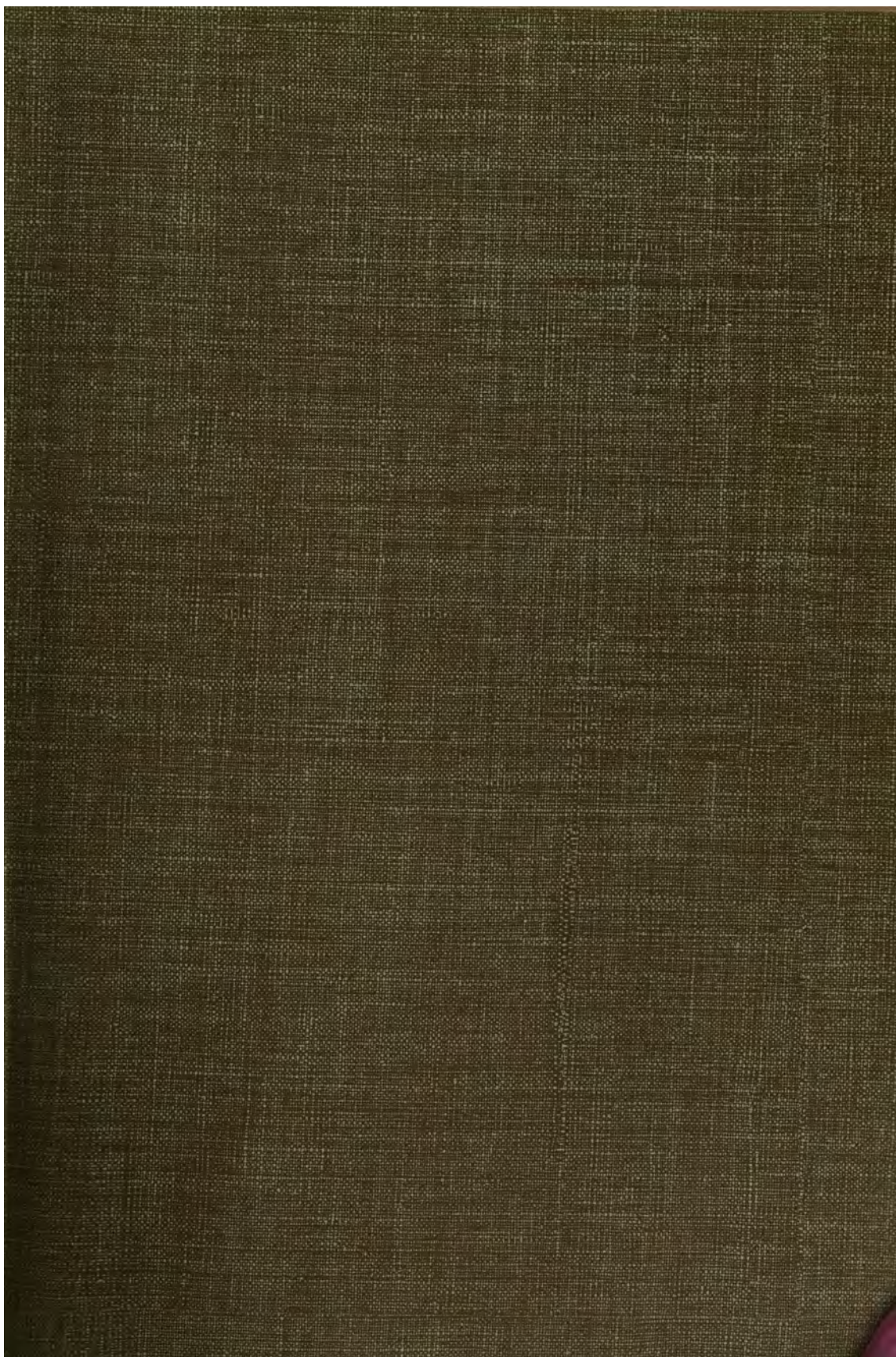
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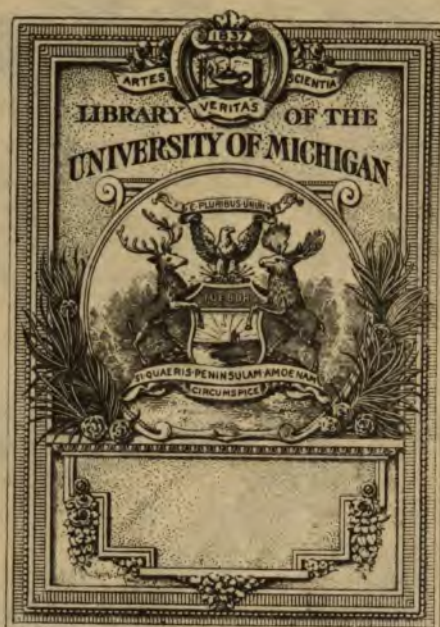
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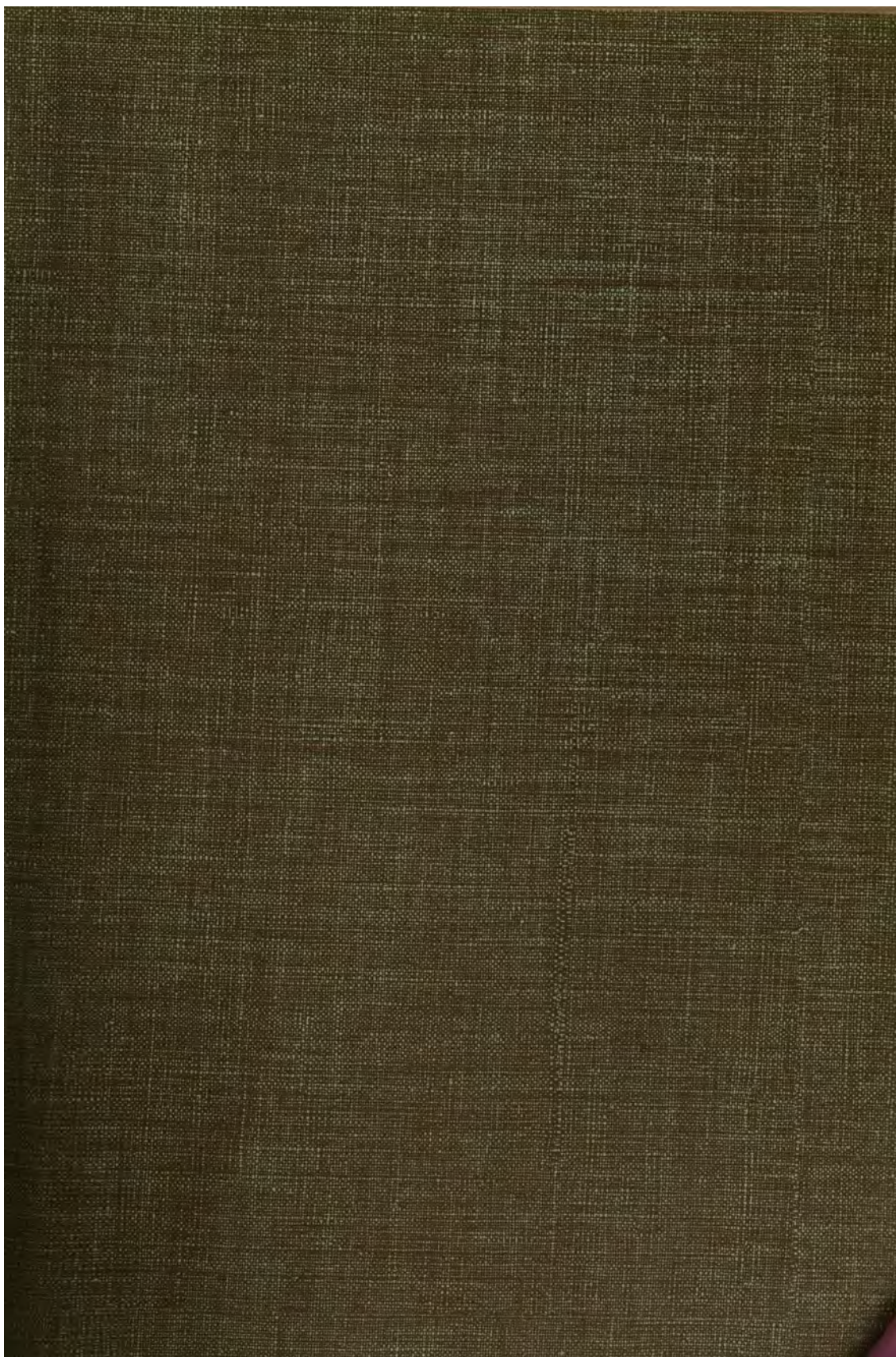
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Official Record
Congress of Accountants
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Congress of Accountants

SECOND EDITION

OFFICIAL RECORD OF THE PROCEEDINGS

OF THE

International
- - **Congress of Accountants**

HELD AT THE

World's Fair, Saint Louis

September 26th, 27th and 28th, 1904

UNDER THE AUSPICES OF THE

Federation of Societies of Public Accountants

IN THE UNITED STATES OF AMERICA

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Congress of Accountants

Official Record of the Proceedings

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Duties Subsequent to Investment. The Auditor; Legislation

in England; No standard of fitness obligator ; The Companies' Act; Chartered Accountants usually employed; Private Clients; Joint Stock Companies; Legal Responsibility; Decisions; Errors in Accounts of Omission, of Commission, of Principle; Evidence as to accuracy; the Balance Sheet; Valuation of Fixed and Floating Assets; Goodwill; Real Estate; Mortgages; Secret Reserves.

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"THE BRITISH SOCIETIES".....page 165

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A. L. DICKINSON'S PAPER.....page 171

"The Profits of a Corporation." Touching upon the legal and accounting principles and practice involved in computing Profits; Comparison of the English and American Law bearing thereon; Profits available for Dividends; Form of Profit and Loss Accounts; and upon the recognized methods of treating various Assets and Liabilities so far as they relate to Profits; also upon specific questions of vital importance to be considered in the determination of Profits.

DISCUSSION ON ABOVE PAPER.....page 192

JOHN HYDE, of Montreal: Coincides with Lecturer; American Standpoint; Objects Strenuously to Single Entry; Payment of Dividends; Depreciation of Plant; Sinking Fund; Stocks at cost price. HARVEY S. CHASE, and JOHN ALEX. COOPER ask questions. ROBERT H. MONTGOMERY, on Single Entry Bookkeeping; the Order of Assets and Liabilities on a Balance Sheet. Further remarks are made by ALFRED G. PLATT, ALLEN R. SMART, FRANCIS A. WRIGHT and FRANCIS W. PIXLEY.

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E. VAN DIEN, of Amsterdam.....page 203

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Report of Proceedings.

The sessions of the Congress were held in the Assembly Hall of Washington University in the Western portion of the Louisiana Purchase Exposition Grounds. The Hall was beautifully decorated with palms, ferns and other foliage plants and cut flowers. A suitable platform for the occasion had been erected which was handsomely furnished with old oak furniture.

First Day.

(MONDAY, SEPTEMBER 26th, 1904.)

MORNING SESSION.

The Congress was called to order at 11 a. m. by Arthur Lowes Dickinson, C.P.A., F.C.A., of New York, Chairman of the Committee on Arrangements.

CHAIRMAN.—Ladies and Gentlemen: As Chairman of the Committee on Arrangements of this Congress I have to perform the duty of nominating a permanent chairman to preside over the meetings.

The Committee felt that as the Permanent Chairman would be required to deliver an address, it was hardly possible to leave his nomination entirely to the members of the Congress. We therefore had to select a gentleman who we felt sure would meet with your approval, and to ask him before hand if he would be willing to accept the Chairmanship and prepare an address.

We invited Mr. Joseph Edmund Sterrett, C. P. A., President of the Pennsylvania Institute of Certified Public Accountants and an accountant of the highest standing to accept this position.

I may say, that the Pennsylvania Institute is, next to the American Association, and possibly with the exception of Illinois, the oldest society of accountants in the country. It seems, therefore, very appropriate, as we have no official representative from New York here, that Mr. Sterrett should be selected for this position.

I therefore beg to nominate as Chairman of the Congress Mr. Joseph Edmund Sterrett, and when that is duly seconded I will ask you to signify your approval of the nomination.

ALFRED G. PLATT, C. P. A. (California).—It gives me great pleasure indeed to second the nomination of Mr. Sterrett, of Philadelphia. Mr. Sterrett is very well known to all the accountants of the United States. I think this Congress of Accountants will confer an honor on itself by electing Mr. Sterrett as Permanent Chairman.

CHAIRMAN.—I would ask you to signify by your unanimous vote that you approve of the selection of Mr. Sterrett as Chairman.

(The motion was unanimously passed amid applause.)

(Mr. Sterrett takes the chair.)

MR. STERRETT (Chairman).—I thank you for the honor, gentlemen, and will ask that you proceed to the election of a Secretary.

MR. DICKINSON.—I wish to nominate George Wilkinson as Secretary of this Congress. Everybody knows him by name, and most of us here present know him personally. But no one knows as well as the Committee the enormous amount of hard work he has done in getting this Congress up; sacrificing every private interest and at serious inconvenience to his clients, he has devoted himself wholly to this Congress during the past six months.

(Nomination seconded, put to vote, and unanimously carried amid applause.)

GEORGE WILKINSON, C.P.A., of New York City.—Gentlemen: We have some very important business before us and I will not take up a minute of your time, except to thank you for the very generous way in which you received my nomination.

The programme has not been pre-arranged to any extent, and I will take the liberty to at once propose that a deputation of this Congress, composed of Mr. Dickinson, Chairman of the Committee on Arrangements, Mr. Sterrett, Chairman of the Congress, and Mr. George O. May, a member of our local Committee, be authorized by the Congress to at once wait upon Governor Francis, President of the Louisiana Purchase Exposition Company, and escort him to this meeting. Until his arrival we will take a short recess, during which we will get a little better acquainted.

JOHN ALEX. COOPER, C. P. A. (Chicago).—I second that motion.

(Motion put to vote and carried.)

(Recess declared.)

The Hon. David R. Francis, ex-Governor of the State of Missouri and President of the Louisiana Purchase Exposition Company, arrived and took his seat on the platform at 12 o'clock.

CHAIRMAN.—Gentlemen: It gives me great pleasure to be able to introduce to you a man who more than any other one man is responsible for the accomplishment of this Universal Exposition, and who has kindly come here this morning to say a few words to us. You all know him—an energetic, forceful man of business, who has devoted much of his time to this, his own city, who has served his State as its Executive, who has sat in the President's Cabinet and in the face of enormous obstacles brought into being this great Exposition. You are familiar with the story, how he stormed the Government at Washington and how in nineteen days he conquered Europe.

The Congress of Accountants will now be addressed by the President of the Exposition Company, the Hon. David R. Francis. (Prolonged applause.)

EX-GOVERNOR FRANCIS.—Mr. Chairman and Gentlemen: After the very flattering introduction which your Chairman has given me I guess I should feel somewhat embarrassed, and I admit I do; but not sufficiently so to prevent me from extending to you a very cordial greeting to these grounds. This Exposition is the result of six years of labor on the part of a number of us living in this community, and we have participating in it practically every State and Territory of the United States, as well as every civilized country on the globe, and we have in addition to that many primitive races represented here. You can well understand, therefore, how gratifying it is to the management to have a representative assembly such as is now in this hall, come to see the result of these labors, and, if I may make the statement, to enjoy the advantages that such an Exposition presents.

Men such as you are accustomed to dealing with figures mainly, and with dollars and cents, and you can understand that a trial balance of a great undertaking like this is a most difficult one to draw at any stage of the proceeding.

We have never expected to realize any commercial profit from this enterprise—in fact we have always felt from the beginning of the work that it would entail, in addition to labor, a great expenditure of treasure, and in that respect we have not been dis-

appointed. (Laughter.) When I tell you that we first secured \$15,000,000, and then, after our work had progressed two years and we saw that \$15,000,000 would be entirely inadequate, we got a loan from the Government of \$4,600,000 additional, you can understand how the management had to deal with figures. When I tell you that in addition to that the States and Territories and possessions of the United States have appropriated and have expended or will expend \$10,000,000 additional, and that foreign countries have appropriated about \$7,000,000 for their representation here, and that in addition a number of private associations have erected houses upon these grounds as places of meeting for the members—I believe that you can estimate perhaps better than I can as to what the total cost of the installation of this Exposition is. I have placed upon it an estimate of between \$40,000,000 and \$50,000,000, and that does not include the cost of the exhibits themselves—that means the administration expenses, the cost of preparing the grounds, of providing receptacles for the exhibits, and the erection of the pavilions of these Societies, States and Territories, and the possessions of our own country and of foreign buildings also. When you take into consideration, in addition to these items, the cost of the exhibits, I would not attempt to place any estimate upon the value that is represented by this Exposition. But it makes no difference what the commercial value is. If the people of St. Louis have the \$10,000,000 to expend that they have provided; if the people of the different States and Territories have the money for their representation; if the Federal Government loses the money it has appropriated in the shape of advances to the Exposition Company, I think, and I trust you will coincide with that view after seeing the Exposition and what it presents for the benefit of the millions of visitors who will come, that all this expenditure has not been unwise. It is my opinion that the return for it is of much greater value than the value of the money itself.

A community of the size of St. Louis, which had but 575,000 people at the last census, and which has now probably 700,000, undertakes a very laborious contract when it attempts to install an exposition at a cost of \$10,000,000 to itself and to maintain it through a period of seven months, when the local population is as limited as I have stated it to be.

Our attendance, as you have probably seen from the public prints has not equaled the attendance at Chicago. The way to

account for that is that Chicago, at the time her exposition was held, was two and a half times as large as St. Louis at the time our Exposition was installed. It had the advantage of the local population, to say nothing of the suburban population, which is very much greater than that of St. Louis. But I believe statistics will show at the end of this Exposition that more people have come to this Exposition from a distance of 100 miles than visited the Chicago Exposition; I believe more people will have come from a distance of two hundred, three hundred, one thousand miles, and more from a distance of three thousand miles, than went to the Chicago Exposition; so that our falling off in attendance is attributable solely to the fact that the population of this city is only 40 per cent. of what Chicago's population was at the time their Exposition was opened. We have expended more money, or at least quite as much money, to inaugurate this Exposition as did Chicago to inaugurate hers. Our area is twice that of Chicago—the space within our walls. Our exhibit space is 50 per cent. greater than the exhibit space of Chicago; our exhibits outnumber those of Chicago; the employees of our exhibitors outnumber those of Chicago, of necessity. I am comparing this with Chicago, because that is the only great Universal Exposition ever held in this country, and up to the time it was held there had been no Exposition held in any country that could compare with it.

When people come from a distance, as they are coming now, to view these exhibits, they encourage the management to a very great degree. This is an educational exposition—educational in several senses. This is the first international Exhibition that has ever devoted one large exhibit palace to an educational exhibit. I believe, in fact, that there has never been another systematic educational exhibit installed in any exhibition, whether it were national or international, or whether it was an exhibition confined to a small section of country. The educational feature of this Exposition is the dominant feature in it, and the benefits that will accrue to this entire country from this Exposition we think are inestimable. I believe that the States of this Union will be induced by this Exposition to devote more of the taxation which they collect from the people, to educating the people of their respective sections than they have done heretofore, or than they would have done without this Exposition. When a State sees from a chart or from a map or from both—and all the statistics are presented in

this Exposition, that it expends 59 cents per capita for education, while another State expends \$7.60 for every one of its population during the year, then the State that has spent but 59 cents can very readily account for the fact that it has not made the same progress achieved by the State that has spent twelve times as much or thirteen times as much for education as it has.

It is a great thing to draw together people of the different sections of this country, and the people of all civilized countries. When you bear in mind that within a comparatively small area of the country are assembled representatives of all civilized peoples, and that they have installed the best products any of them have ever been able to put forth, it is certainly an end that is worth all the labor and all of the expenditure that has been entailed. These people are engaged in friendly competition; in the rivalries of peace. It brings the people together; promotes their mutual respect, and it deepens the patriotism of the people of this country. Education and patriotism, as you know, are the foundation of our institutions. Our country to-day is large in area, and it is starting out upon new policies of administration, and it is necessary to cement its people—it is necessary for them to feel that they have a common interest, common destiny, and nothing contributes so much toward that end in my judgment as does an International Exposition of this kind. Furthermore, I cannot go through these grounds and see the hundreds of thousands of visitors who are here, and observe the earnest look upon their faces, without being impressed with the fact that the visitors themselves are being educated by this Exposition. They learn more in this way than they would ever learn in books, because in the first place very few people have the application. The most difficult education that has ever been attempted is the education of people who have gotten beyond the school age, and who are engaged in the regular pursuits of life. These people are so wearied from their daily labors that a very, very small percentage of them ever devote any time to reading; in fact, hours that they can spare away from their work and their rest are devoted to recreation and to pleasure. Look upon the people upon these grounds, and you will see upon their faces a determination to inspect the exhibits systematically, and to get out of them what they can. I have seen hundreds of thousands of people come here who were unable even to buy their own meals upon these grounds; who have gone to the boarding houses of this city and have made arrangements for accommoda-

tions at the lowest possible price, and who have come to this Exposition early and remained late, and who have gone systematically through the exhibit palaces, have heard the lectures being delivered every day in these exhibit palaces explaining the exhibits. I believe that a month devoted by any boy or girl of ordinary intelligence to the inspecting of these exhibits is worth more than ten months attendance at any educational institution in the land. (Applause.)

The object of this Exposition, as I told you, is not of the pecuniary kind; the motive of it was, as you know, the celebration of a great event in the history of our country. It was to commemorate the rounding out of the first century of the dominion of the United States Government over this vast territory lying west of the Mississippi River and extending to the Rocky Mountains; it has since been extended to the Pacific Ocean. It was a patriotic impulse that promoted the celebration, and the more the importance of the event was considered, the more determined were the originators of this celebration to make it in keeping with the event it is intended to commemorate. We trust we have done so. But outside of the sentiment, I have attempted to call your attention in a few words to the practical facts.

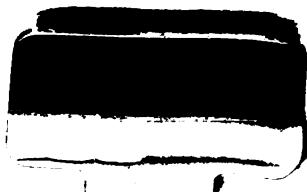
I could go into detail and detain you for hours concerning the exhibits in these different palaces. Germany has made such an exhibit here as she never made in any foreign country. In my judgment no country ever made a greater exhibit in a foreign country than Germany is making at this Exposition. France, which is the home of expositions, is making an extraordinary exertion, and has installed her products of every line of industry in which her people are famous. We have, in addition to these practical features of the exposition, works of art which are highly creditable to a country only one hundred years old. There is such a collection of American art in this Exposition as has never been gathered together before in this country, according to the judgment of the art connoisseurs. Then see the beautiful landscape effects. I believe that anyone capable of judging can go through these grounds and be interested in looking at the landscape for a week. I don't know how the landscape artist ever conceived such beautiful effects as he has produced here. There never was a season more favorable to landscaping than this, and all of this picture is now presented to the view of the visitor in its perfection. We are in constant fear lest a heavy frost may come

and kill some of the flowers. But the autumn foliage, those beautiful effects around the lagoon and those palaces, in my humble judgment are worth studying for ten days, and traveling one thousand miles to see. Nothing ever presented to the eye of man has excelled that picture if it has equaled it in beauty.

Then consider the effect upon living. In addition to having our minds broadened, our points of view elevated by being brought into contact with people from every section of the world and seeing the best products of all the civilized peoples, we have a different view of life ourselves. You know that the tendency of the times is for people to go to cities. The population of the cities of this country has been increasing much more rapidly, as shown by the statistics, than the population of the country at large. It is the desire of the people to congregate in bodies not only on account of their social inclinations, but from the fact that where there is a large community you have so many advantages which one cannot enjoy in a small community and which one is never able to have in the country. I am not depreciating country life, but I mean to say that people go to the cities because there they not only have these social pleasures, they have the best libraries, they hear the best music, they see all the works of art, which in the country they cannot see. One can come here, and in my judgment gain more information and have more real pleasure spending three weeks upon these grounds than one can in making a tour around the globe in one hundred and twenty days. You see more of the customs of the people here; you see more of what they produce than you could by visiting each of the countries and remaining there four or five days, which is the utmost limit you could remain there in making a tour around the globe within a period of four months.

So we who have been engaged in this work, we who have labored for it in season and out of season, feel encouraged when as intelligent a body of men make this the scene of their meeting as this body of expert accountants is. We ask you, gentlemen, to pass judgment upon what you here see installed.

This has been the occasion for bringing together representative bodies of men who have never assembled before in this country, if in any country. Two weeks ago we had a meeting in the Festival Hall of the International Parliament for the Promotion of Arbitration. There were assembled the law makers of the civilized countries on the globe, trying to devise some method



whereby the world could be disarmed, whereby these standing armies would not be necessary. I don't know what the result of that meeting will be, but no one can question the statement that it is a step in the right direction. It was followed by an International Congress of Arts and Sciences, the first systematic effort that was ever made to gather into one assemblage the Solons of the world. There have been congresses in particular lines—religious congresses—which met in Chicago in connection with that exhibition—they were beneficial; there were congresses at the Paris Exposition and they were beneficial; but there never has been an attempt made heretofore to systematize all human knowledge. The organization of that Congress was unique in that the people participating in it were not asked to write papers upon any subject they might select; but first all human knowledge was classified, and then scholars, selected for that purpose, scanned the entire world of learning and selected men in different countries to prepare papers upon specific subjects assigned to them. The result of these papers will be seen in book form in the course of time. The effect of that Congress will be felt for at least a generation to come. It will be an example—the first of its kind that has ever been made in the intellectual progress of the world.

It is true that there are some depressing thoughts in connection with exhibitions of this character; depressing because of the fact that all of this expenditure has been made—all of this labor undergone, for seven months' occupation. Of course you know that an exposition of this magnitude cannot be maintained for a longer period than seven months. Some suggestions have been made that the Exposition shall be continued through 1905. I admit there are a great many arguments in favor of it, but it is almost if not quite impossible, and whether these buildings remain or not; whether these beautiful landscapes will ever be reproduced or not, there is still clinging around this Exhibition a memory which in my judgment will abide with those who see it as long as life lasts, and within twelve months from this time those who failed to come to this Exposition will regret it if they do not now. In my judgment such another opportunity will never be presented within the lifetime of this generation, if any. There may be international expositions and doubtless will be; but there will never be another attempt to have a Universal Exposition—an Exposition that will embrace every line of human endeavor—the material and the intellectual. We take in everything here from a dog

show to an International Congress of Arts and Sciences. (Laughter.) We are expending upon some features of this Exposition very, very much more money than we will ever realize from those features, from a monetary standpoint. At the same time an International Exposition would not be complete if any lines of human endeavor—any production of any country—were omitted.

I think there will be International Exhibitions of Education; there will be International Exhibitions of Electricity, possibly; of Machinery, possibly, and I think that there will be, undoubtedly, other International Congresses of Arts and Sciences, since we have blazed the way, but I believe there is not another community in this country, nor do I believe there is any in Europe, that will enter upon such a herculean task as a Universal Exposition within the lifetime of the present generation. In fact, the only criticism we have had of this Exposition is that it is too large—an effort is made to take in too much. People say they cannot see it all. Well, I have answered that by saying that the whole line of human knowledge is too extensive for any man to grasp. I believe it was Lord Brougham who said "Every man should know something of everything and everything of something; but no man is expected to know everything of everything." Exhibitions, therefore, hereafter, in my judgment, will be confined to special lines.

There are about sixty days of this Exposition unexpired. It has been in operation since the 30th of April—practically five months. It has been my good fortune to be here every day and all day—not only from the opening, but for some time before. I have had many responsibilities; I have had many onerous duties; many trying situations; but the regret to me—the feeling that is uppermost in my mind now, is that there are only two months left of this Exposition, and that it will be a long, long time—never, I am sure, within my experience, ere it will be repeated.

I didn't intend to detain you so long. I desire again to thank you for your presence here and for the interest you manifest in this Exposition. (Prolonged applause followed Governor Francis' address, which was listened to in rapt attention.)

CHAIRMAN.—I will ask Mr. A. L. Dickinson to say a few words in reply to this cordial welcome that has been given to us, after which Mr. Francis will be glad to shake hands with the members of the Congress.

MR. DICKINSON.—I think we are very much indebted to Governor Francis for his attendance at this opening of our Congress. We all know that he is an extremely busy man—one of the busiest in the United States—and the long half hour that he has been so good as to give us must have been at considerable personal sacrifice on his part.

I am sure the general account that he has given us of the Exposition and of its contents is a most valuable introduction to all of us. There are many of us who never before realized what an enormous amount there was to see and what a mass of information was to be obtained in the boundaries of these grounds. All of us, I am sure, wish we had more time to inspect the exhibits than has been allotted by the programme before us. At the same time there is nothing to prevent many of us from staying on longer to take advantage of the opportunities thus offered.

I move that this Congress express its grateful thanks to Governor Francis for his attendance here, and for his most interesting address, by rising in their seats.

(Motion seconded, put to vote and unanimously carried. Members arise and applaud.)

After these proceedings, Governor Francis received the members of the Congress and all visitors and ladies, who were personally introduced to him by the Secretary of the Congress, after which Governor Francis was escorted back to his carriage which had remained in waiting.

After the Reception by Governor Francis was at an end, the meeting was called to order when all present listened with much interest to the address delivered by Chairman Sterrett.

ADDRESS BY THE CHAIRMAN, J. E. STERRETT, C. P. A.,

President of Pennsylvania Institute of Certified Public Accountants.

It was about a year ago that the idea was happily conceived of holding a Congress of Public Accountants in the city of Saint Louis during the Louisiana Purchase Exposition. Later on the matter was discussed by the delegates attending the convention of the Federation in October last, and they decided that such a congress should be held and that every public accountant in the United States should be invited to become a member and

in addition to this that the Canadian and British societies should be invited to send delegates to participate in the proceedings.

A Committee on Arrangements was appointed and the work of preparation was soon enthusiastically under way. The plans of the Committee were greatly facilitated by the courteous co-operation of the World's Fair authorities, who so kindly allowed us the use of this beautiful and most conveniently located lecture hall for our sessions and who have in many other ways contributed to our comfort and pleasure.

We are honored by the presence of representatives of accountants' societies in England, Scotland and Canada. Our brethren who dwell beneath the banner of St. George have labored long and arduously for the advancement of the profession, and we extend to their representatives a most cordial welcome. We are delighted by their presence and await their message with eager anticipation. We welcome them not only for what they represent, but equally for what they are. In their respective fields they have wrought ably and accomplished much. In whatever measure success may attend this Congress, the contribution of these friends will form an important part. May we not also hope that through their intercourse with us they may in turn be benefited in the work in which they are engaged.

The Committee has prepared a programme that deals with a number of very interesting subjects. It is hoped the discussion upon the several papers that are to be read will be as general as possible. In this way only can the greatest good be derived.

While the programme contains much that is of a serious and sometimes technical character, the Committee has not forgotten that man is a social animal. The reception this evening, at which the Mayor of St. Louis has very kindly consented to be present, and the banquet to-morrow evening, both of which occasions are to be graced by the presence of the ladies, will afford opportunities for us to become better acquainted and to forget for a little time "the cares that infest the day."

Coming together to-day in this, the first International Congress of Public Accountants, it may not be amiss to pause for a moment to inquire into the causes that have produced this profession to which we are devoting our lives and concerning whose future growth and development we are earnestly to confer.

The increase of wealth during the nineteenth century, and particularly during its latter half, marks an epoch in the world's history. I am speaking now of the wealth of the community or of the nation, not of the individual. Nor am I referring merely to those forms of wealth such as gold, silver, notes of hand or other tangible evidences of wealth that we are wont to associate with the strong box or the more modern safe deposit vault. Rather would I bring to your thought those innumerable manifestations of human activity which contribute to the physical, intellectual and moral well-being of civilized man and particularly to our fellows, somewhat indefinitely comprised under the race title of Anglo-Saxon.

It is fashionable in some quarters to decry this as an age of commercialism, as though commercial life were a thing to be despised. Is this just or is it unjust? "By their fruits ye shall know them." Viewed from this standpoint and judged by this simple fundamental principle, who will say

that any age since the dawn of history has contributed more than this to the liberty of the individual and to the progress of the race. Indeed it may well be affirmed that the accumulation of wealth—wealth in the sense just referred to—is the most important affair that can engage the attention of the community. In spite of the present inequalities in distribution it still remains true that wealth enhances or makes possible all the forms of material well-being enjoyed by modern civilization. No apologies should be offered for what has done so much, is now doing and promises to do in still greater abundance for the advancement of all that is best in life. Rather let us be proud of the day and generation in which we live and in whose work we are privileged to share.

This remarkable increase in wealth has had a notable effect upon social life. The masses are becoming more educated. Even the poorest can secure the benefits of the modern newspaper—that wonderful searcher-out of the ends of the earth which brings the affairs of the nations to our breakfast tables. People are better housed. Cheap transportation makes possible such a combination of city and country as was never known before. Instance after instance could be cited of how this increase of wealth has, as with a magic wand, touched the homes and lives of the humble, to uplift and transform them.

Its effect is even more marked in the realm of business. In the days of Queen Elizabeth, when the English nation was experiencing almost a new birth, the income of the kingdom was some two and a half millions of dollars a year. These were times of great prosperity, a high tide was in and the nation was flourishing as never before. To-day this sum represents the volume of financial transactions of a grocery house enjoying a fair jobbing trade. A department store in any large center of population would handle such an amount of funds in a few short months. While, when compared with the income of any one of a large number of our railway or industrial corporations, or with the greater municipalities, the amount, once so great, fades almost into insignificance.

An essential feature of this modern phenomenon of business is that it is not individual. We have many men of large accumulations, it is true, but we find an immense army possessed of means which in themselves are of little moment, but which united form a vast stream of wealth. It is from this commingled yet ever separable fund that the life blood of business is drawn. From this source springs the financial strength of modern business institutions.

But wealth is inanimate. It will not of itself go out and sow and reap. It will not increase and multiply in response to mere idle wishing. It must be organized, it must be directed. Hence we find centralization of authority. All forms of wealth are being brought more and more under definite control. We are learning that economic waste is a moral wrong. This control of wealth is bringing about specialization—has already produced it to a large degree. Men are devoting their lives to the mastery in some instances of one little process; in other cases they have chosen wider and more varied fields of action.

To meet a necessity arising from this economic development there has been evolved the public accountant. Accounting is a vital element of busi-

ness, as necessary to its conduct as light is to the eye. The growth of business, both in volume and in the diversity of its ramifications, has created a need for scientific accounting methods upon the one hand, and the intelligent, conscientious oversight and supervision of fiscal operations upon the other. To meet these needs is the studious function of the public accountant. Nor is his field narrow or circumscribed.

That the public accountant is a sort of detective, whose chief service is to show how a thief tapped the till, is a conception of our work that is altogether inadequate. It is true that trusted officials and employees at times betray the confidence reposed in them and that when such occasions arise it is a part of our duty to turn a searchlight upon their nefarious conduct. Such cases, however, form but a small part of our activities. Prevention is better than cure, and the public accountant serves a larger purpose in the keen, penetrating tests and proofs to which he subjects the books and accounts submitted to him for audit. The keynote of modern business is faith. Men must be trusted, otherwise the wheels of business would cease to revolve, but strict accountability must go hand in hand with faith, else temptation is placed in the path of the weak, virtue is destroyed, and he who is the responsible head of affairs makes of himself a partner in crime.

Important as the safeguarding of funds and the prevention of fraud and error undoubtedly are, a broader and still more attractive field has been opened to us. Men responsible for the conduct of large enterprises to-day require not *history* but *news*. It is of little avail to find out three or six months afterward that last year's business was conducted at a loss. It is needful that the loss be discovered as soon as it begins, and also that the reason for its occurrence be revealed in order that it may if possible be overcome or removed.

It is one of the chief functions of the public accountant so to marshal the accounts that they will set forth the facts essential to the proper management of a given enterprise, and this in a form easily understood and with such promptness that the information is current with the transactions described. Business administration cannot for any length of time achieve its best results unless supported by an accurate, detailed and constant knowledge of condition as to assets, liabilities, costs, expenses and income. This knowledge is obtainable only by the maintenance of a properly devised accounting system.

The public accountant touches business life upon every side. His client may be the governing body of a city, state or nation, or he may be engaged by the owner of a corner grocery store. His attention may be required one moment by a great corporation, the next he may be preparing the basis for an equitable settlement between partners who are no longer willing to work in double harness. The lawyer dealing, as he so often does, with problems relating to accounts or business practice, the tradesman, the manufacturer, the financier, all alike have their needs that can be supplied only by the knowledge, skill and experience possessed by the public accountant.

To quote from a recent paper from the pen of Mr. A. Lowes Dickinson, whose standing as an accountant entitles his words to thoughtful consideration: "A public accountant is not merely a bookkeeper, a statistician or a man of figures, nor only a good man of business, but if he is successful in

his profession he must combine all these qualifications and in addition have a general knowledge of all industrial undertakings, of the forms of accounting most suitable to each, and of the general principles both legal and economical which govern them."

That here is a calling appealing to talent of no mean order is evident. That these requirements, comprehensive and almost impossible as they may at first blush seem, are to some reasonable extent being fulfilled is proven by the increasing degree of confidence that men of affairs are reposing in the members of this young profession. The public accountant is being invited to a seat at the council board and his suggestions and recommendations, even in matters that ought not to be considered of a strictly accounting nature, are received with attention and respect.

In this country the public accountant was practically unknown twenty-five years ago, and indeed his position in the community has been largely a development of the last ten years. Even on the other side of the water that honored organization, the Society of Accountants in Edinburgh, which is the oldest society of accountants and which we Americans have looked upon as one of great antiquity, does not until next month celebrate its fiftieth anniversary. So much depends upon the point of view. To the child of eight or ten the man of fifty has lived a long, long time.

I feel whenever I meet my professional brethren that we ought to exchange congratulations upon our membership in a profession, so young, so energetic, so free from traditions that stifle, while yet maintaining well defined principles of ethics, and most of all so full of possibility for the employment of every faculty of mind and heart in noble service in the field of life. All labor, whether of the hand or head, is honorable in itself, and only dishonorable if the end that is sought be unworthy, yet it still remains that some forms of effort tend more than others to the education and development of the individual engaged in them. To me, the crowning glory of our profession is that it must ever stand for the highest ideals in the life of the individual and for the slow but sure evolution of society into a state where honor and honesty shall not be mere abstractions.

As already intimated, one of the most remarkable phases of modern life is its passion for organization. We have learned that "in union there is strength," that the strength of three men combining their energies upon a given object is greater than three times one. Problems that baffle the efforts of the individual are solved by the united efforts of a community of minds. The bringing of the experiences and reasonings of different individuals to bear upon the same objects, combining them in such a manner as to illustrate and to limit each other, has been a potent factor in modern progress. The whole scheme of corporate management now so much in favor is based upon the thought of the conserving yet stimulating effect of mind upon mind.

It is not strange, therefore, that the American accountant, who of all men was familiar with the application of this principle to business requirements, early sought its advantages for himself and for the profession that was then struggling for even a little solid ground upon which to stand. It was in 1887 that a few public accountants in the city of New York, together with two or possibly three men practicing in the neighboring cities of Phil-

adelphia and Boston, formed the American Association of Public Accountants and incorporated it under the laws of the State of New York. As the title indicates, the intention of its founders was that this should be a national organization composed of individual members practicing in different parts of the country. In their view this form of organization was sufficient, and for a time it doubtless was.

It was from no spirit of opposition or antagonism, but rather from local needs that could be met only by societies confining their field of operations to a single State, that some ten years after the formation of the American Association of Public Accountants the several State societies began to be formed. The passage by the New York Legislature in 1896 of the first Certified Public Accountant Law was an event that stimulated public accountants all over the country and started them in efforts, which have since spread so widely, to secure similar legislation in other states.

It appears now to be definitely settled that the title by which we are to be legally recognized is that of Certified Public Accountant, with the designating letters C. P. A. Legislation, so far as it has been obtained, is uniform upon this point. That the legal recognition thus acquired has been of great value is now generally admitted, and with the passing of each year the title conferred under these laws will become better known and more highly respected.

It was in March, 1897, that the first of these local societies was formed. Accountants in Chicago and Philadelphia almost in the same breath undertook to form respectively the Illinois Association of Public Accountants and the Pennsylvania Association of Public Accountants. Just two months later the certified public accountants of New York deemed it advisable to form in that State a local society, entirely independent of the American Association, whose membership should be confined to accountants holding certificates issued by the regents of the University of the State of New York. This was the first society whose membership was confined to certified public accountants and it is to-day numerically the largest state organization in the United States.

Pennsylvania obtained a C. P. A. law in March of 1899, being the second state to secure such legislation. Soon afterward the Pennsylvania Association of Public Accountants reorganized into the Pennsylvania Institute of Certified Public Accountants, and its example in this respect has been followed extensively by other societies in States where they have been successful in securing legislation.

Since the beginning of the movement toward State societies, which, as has been said, set in about 1897, twenty societies have been formed, of which seven confine their membership to certified public accountants and thirteen have not as yet secured C. P. A. laws. The kind of organization that is to control in matters of State or local interest is thus established beyond any question among public accountants. These state societies are working along similar lines and have the same ends in view, while the means used by each necessarily vary to meet local conditions.

During the early stages of the C. P. A. evolution the state societies filled all the requirements of the situation. A C. P. A. law can be secured only from a state legislature and its administration is strictly subject to

state supervision and control. In common experience with other growing movements where central organization is lacking during preliminary stages, it was soon found that larger development created a series of problems insoluble by local organizations working independently, and the feeling began to arise that some sort of relationship should be brought about between these local societies. It remained for Mr. George Wilkinson, then President of the Illinois Association, to write on this subject a paper, that modern engine which, like a good dinner, is so often employed to set the ball rolling. This paper was read before a meeting of the Illinois Association of Public Accountants on July 8, 1902. As the meeting was held at the Chicago Beach Hotel, the inference is clear that it was a case of combination of dinner and paper. It seems as though it must have been both in view of the results that have followed it.

Mr. Wilkinson reviewed concisely and clearly the situation as it then existed, showing the isolation of the several societies and their impotence in affairs of a national character. Like a true prophet he did not rest content with a lamentation over present ills, but proceeded to unfold a plan for the co-ordination of all existing organizations by the formation of a federation of societies of public accountants. Here for the first time the thought of such a form of association was given concrete expression.

At that meeting the members of the Illinois Association unanimously adopted a preamble and resolution to the effect that it was desirable to form a national federation, and the following Committee was appointed to draft a plan for such federation: the late Chas. W. Haskins and Messrs. A. Lowes Dickinson, Allen R. Smart, John A. Cooper and Ernest Reckitt, the president being *ex officio* a member of the Committee. The subject awakened widespread interest and the plan prepared was presented to a Convention held in the city of Washington on Tuesday, October 28, 1902. Duly elected delegates of all the established societies were present, and an organization was formed under the title of the "Federation of Societies of Public Accountants in the United States of America." Officers were elected and a Constitution and By-laws adopted. Subsequently the whole plan was submitted to the constituent societies for their ratification.

The formation of a national organization, simple as it would seem, was not unattended with difficulty. Honest differences of opinion existed, and the Constitution and By-laws finally adopted by the Washington Convention in 1902 differed widely from the plan first proposed by the Committee of the Illinois Association. Questions of taxation and representation—a topic for dissension which since the time of the Boston Tea Party has ever been dear to the American heart—had to be considered thoughtfully and from many points of view. The objects for which the Federation could properly strive and the limitations by which its activities should be encompassed needed clear definition, and received careful thought. One of the chief values of conventions and conferences lies in that unification of purpose and better understanding of objects and motives possible only through personal contact. "Come now, let us reason together," is as wise counsel to-day as two thousand years ago, when first spoken.

So the delegates to that first general convention of public accountants practicing in the United States met, many of them as strangers but all of

them very much in earnest, and there officially stamped with their approval what is now generally known as the "Federation idea." That is to say, a national organization based upon representation by delegates elected by the several State societies, meeting in annual convention, working *ad interim* through an executive board composed strictly with reference to the interests of the general body without permitting a predominance of any one local society, having as its field of effort all legislation or policies of a national character in any way affecting the profession and only trenching upon the affairs of the local society in so far as these may relate to the general good of all or as they may affect another society.

While the plan outlined by the Washington Convention of 1902 is now generally recognized as embodying in its essential features the proper basis for national organization, it is a matter for regret that one society, the American Association, did not agree to it and has since held aloof. It is also regrettable that the New York State Society during the past year, for reasons mostly of a local character which it is hoped will prove only temporarily effective, has felt constrained to withdraw from its rightful place at the head of all the federated societies.

It, however, is most satisfactory to be able to state that negotiations are now being conducted with a very fair prospect of accomplishing a practical, honorable union of all these bodies.

The march of progress cannot at this day be stayed by the defection or isolation of any one State, but by the hearty co-operation of all its pace can be accelerated; and to this end it is sincerely desired that all differences of opinion may be quickly adjusted and that the entire profession, with solid front and even step, may address itself to those more weighty matters that are now calling for its best thought.

Brief as has been the life of the Federation thus far, it is proud of what it has accomplished, and looks with still more hopeful admiration upon those developing purposes whose fruition will add to the glories of our profession in the near future. As expressed in its Constitution, the first object is "to bring into communication with one another the several associations and societies of public accountants, organized or to be organized under the laws of the several States of the United States of America," and this object is worthy of first place. It is utterly useless for any man or body of men to hope to accomplish large and worthy ends without enlisting the enthusiasm and mutual encouragement of all those who logically should be concerned in a given purpose. The Federation has been a vehicle of communication between the Atlantic and the Pacific, between the North and the South. It has been traveling through the land bearing to every practicing public accountant the message that he is part of a greater whole, that he has interests in common with his professional brother of New York, of Massachusetts, of California, of Louisiana and of Illinois; that they in turn are interested in him and desire to know more concerning his problems and his efforts toward the advancement of those principles of business life and administration for which our profession stands as an agency to promote the happiness and well-being of the human race.

The story by no means stops here. The second object expressed in the Constitution is "to encourage the formation of State Associations of Public

Accountants in States where they do not exist." It thus recognized its belief in the usefulness of societies of public accountants whose activities are directly concerned with matters pertaining to the state in which a given society is located. That this was no formal expression is proved by the fact that since October, 1902, societies have been formed in Colorado, Georgia, Indiana, Kentucky, Louisiana, Minnesota, Missouri, Ohio, Tennessee, Washington and Wisconsin—eleven societies, and all, more or less, the direct outcome of work done by the officers of the Federation. Nor have numbers only been striven after, for professional standing has in each instance been made a prerequisite to organization. Without help from outside some of these societies would probably have been formed, but it is extremely doubtful if more than a very few of them would be in existence to-day, and it is still less likely that their plan of organization would have been so good or their standards of admission so high without the counsel and assistance afforded to these fledglings by the Federation.

A great impetus has thus been given to the profession in places where it has been struggling for a foothold. Encouragement has been extended to men who have been honestly endeavoring to establish, in their own communities, a knowledge of accountancy. Their hands have been strengthened and their hearts inspired to greater effort by the knowledge that they have with us a share in a movement national in its scope and of the highest importance to the interests of the business community. We in turn are helped by them. They teach us that accountancy is not a little private institution with its title vested within the confines of one, two or three of the larger eastern cities. Provincialism, which as often appears in the largest city as in the smallest town, is being broken down and we are being led into the larger truth that we are one profession as we are one nation.

State legislation must be left to the initiative of the local societies, but it is important that C. P. A. laws should be as uniform as possible. All such laws are not equally good. Already one or two serious defects are seen in the earlier acts. For instance, a certified public accountant of one state cannot practice as such under the C. P. A. law of a sister state, except in Illinois, where the door stands wide open. While these shortcomings are bound in the course of a little time to be remedied by further legislation, it is important that similar mistakes be guarded against by states applying now or in the future for such laws.

The interests of the profession and of the business public—for in this matter these go hand in hand—should be carefully safeguarded, but unnecessary restrictions should not be set up. These, while serving no practical good, engender bitterness of spirit. The Federation has drafted two model forms of C. P. A. laws, both of which it believes to be good. One of these drafts applies to states having a university under state control by which the examinations can be given and the C. P. A. certificates granted. The other applies to states without such universities and in which the law must be administered through the governor by means of a board of examiners. These forms, subject to modification in details, are most helpful to those endeavoring to secure legislation. The important provisions that should be embodied in all such laws are thus in no danger of being overlooked, while unwise features are discouraged.

Within the past few years the wealth of an empire has been concentrated under the control of a few great corporations. These giant aggregations have been created with wonderful rapidity and an astonished world looks on scarcely knowing whether to tremble or to applaud. What is to be the ultimate result of these startling phenomena is as yet a matter of speculation and not of knowledge, but the trend of present thought certainly is toward the belief that the general Government at Washington must bear a closer relation to and exercise, to some extent, a supervision over corporations doing an interstate business.

At the same time paternalism in government or restriction upon private initiative, so long as the latter is confined within just bounds, can never be popular with our people. By virtue of his training, attainments and standing in the commercial world, as well as by the attitude of the National Government, the public accountant seems destined to occupy an important place in the relations between the government and the corporations. "Federal recognition of the profession of the public accountant" can be secured only by a strong representative national body speaking with one voice from Maine to California. Just the precise nature of the relation the public accountant is to bear to the National Government, as well as his duties and responsibilities in connection therewith, cannot now be foretold, but that the near future holds promise of development along this line is not hard to believe when we remember the almost hopeless prospect that existed ten years ago for any sort of state legislation.

In the beginning of any piece of constructive work, whether it be the building of a humble dwelling or the establishment of a profession, the thing of first importance is the foundation. Legislation for a profession only grants opportunity. Education must be underneath and around all our legislation and organization. We do not employ arts that can be learned only in the darkness and that must ever be shrouded in mystery. Still less is our work the product of any rule of thumb. The idea that from business practice and experience there cannot be formulated a body of knowledge adaptable to teaching purposes is slowly but none the less surely being dispelled. The modern teacher is at last awaking to the fact that education may still be education without at the same time being devoid of any application to the practical affairs of life. In view of the need of proper training for men seeking admission to our ranks it is a matter of congratulation and interest to note the educational movement which is now under way. The New York University, with its School of Commerce, Accounts and Finance, has been doing good work for several years and was the first in the field to devote special attention to training for the work of the public accountant. The second on the list is the University of Pennsylvania, with its School of Accounts and Finance, which will open within a few days. This school owes its inception to the Pennsylvania Institute of Certified Public Accountants and receives the active support and co-operation of the latter body. Although this is the second school to be established in America, the University of Pennsylvania is the first educational institution of highest rank to offer a course of instruction planned with a view of preparing candidates for the C. P. A. examination. Because of the high position of the University of Pennsylvania among institutions of learning the result of this new

undertaking will have a far-reaching effect. The success of these schools means the recognition of business as a proper subject for educational effort, and further, and to us more important still, the final step in the establishment of accountancy as a learned profession in the United States.

The Federation now rounds out its second year by bringing together this Congress of Accountants, composed of men coming not only from every part of our own land, but also from our neighbor on the North and from that mother country across the sea with which Americans are becoming every year more intimately allied in diplomatic, business and social intercourse. For the first time in the world's history an international body of public accountants has come together to deliberate upon topics of common interest. In this city on the banks of the mighty "Father of Waters," and surrounded by these marvelous evidences of the world's progress in wealth and all that goes to increase the happiness of the individual and promote the welfare of society, we are met together as one. Our purpose is not to destroy, but to build up, not to disparage the work of other men, but to learn from one another how best to develop this profession, which in the few short years of its history has made such a splendid record and which seems destined to be in the future a still more potent factor in the promotion of justice between man and man and in the elevation of business life. Much has been accomplished, but much more remains to be done. Policies are to be outlined, questions of practice are to be decided, a system of professional ethics must be developed. These are but an indication of the themes that will engage the thought of this Congress, and of many others of which this is but the forerunner.

To paraphrase a recent political utterance, "a profession is of worth only in so far as it promotes the common interest." By that standard accountancy is to be judged. In our planning let that principle go before us as a pillar of light. The problems confronting us are many and complex, but putting aside all selfishness may we continue to work for the upbuilding of our profession in a spirit of honesty, of courage and of common sense.

CHAIRMAN.—It is almost time for our adjournment; but before doing so we have some delegates from foreign societies whom I know we all want to look in the face. The Institute of Chartered Accountants in England and Wales is a body that is well known to American practitioners. Many of their members have come over here. We are delighted to associate with them and they have been a very great help to us in the development of the profession in this country. This Institute has sent to us its last Past President; a man who has served years on its Council, and who is well known by his works on accountancy matters as well as other topics. I have great pleasure in introducing to you Mr. Francis W. Pixley, of London.

FRANCIS WILLIAM PIXLEY, F. C. A.—Mr. Chairman and

Gentlemen: I have to thank our Chairman very much for his kind expressions towards my Institute and towards myself. It was a great pleasure indeed to me, when those who were forming this Congress asked my Institute to send somebody to represent them, and I had a great feeling of pride when my Institute was good enough to select me to come this long distance to meet our brethren on this side of the Atlantic. I can assure you it has been a very great pleasure to me to come here. I never had an opportunity to visit America before, and therefore it is especially interesting and pleasing to me to come across to pay my first visit—I hope it will not be my last—and meet the members of my own profession.

I am glad to see the profession becoming so well known, and so well represented in America. It is with us, as with you, to a certain extent a new profession. The oldest branch of the profession is that of Scotland, as the Chairman has already stated. Next month they celebrate the Fiftieth Anniversary of obtaining their Royal Charter.

I thank you very sincerely indeed for the kind way in which you have received me as the representative of the Chartered Accountants of England and Wales. (Applause.)

CHAIRMAN.—As you are probably aware, Mr. Pixley to-morrow afternoon will read a paper of very great importance to this Congress. We will have the pleasure of hearing from him then, and I am sure you will all want to make a special point to attend that session of the Congress.

Over in England there are two strong bodies of Accountants. The Society of Accountants and Auditors, Incorporated, has also kindly accepted the invitation of the Federation to attend this Congress. Their representative is a gentleman who has for the last eighteen years worked unceasingly to further the interests of accountancy abroad. He not only takes care of his practice, but looks after the Secretaryship of his Society—and I am sure that our Secretary will agree that that is a very large burden in itself—and besides that for several years he has been editor of a journal devoted to accountancy matters.

I take great pleasure in introducing Mr. James Martin, Secretary of the Society of Accountants and Auditors in England.

JAMES MARTIN, F. S. A. A., F. S. S.—Mr. Chairman and Gentlemen: I think perhaps after what has fallen from Mr. Pixley it is not altogether necessary that I address you, because

if we are in England divided into two bodies, so far as accountancy there is concerned, we are united in regard to our sentiments towards American people and American accountants. (Applause.)

When you did my Society the honor of extending to it an invitation, at their first meeting they unanimously accepted it, and I think they asked me to come across the Atlantic to see you because they knew that I had studied for many years the history of American Accountants, and that I was with you heart and soul in your endeavor to get State legislation. Now I understand from what has fallen from your Chairman and also from what I have learned from Mr. Wilkinson, that you have received recognition in several States. I hope that this is only a prelude to what I shall term National recognition. It certainly does seem to me that it would be an enormous advantage if in this country there was a diploma which would run over the whole of the United States and which would be recognized by all. I believe this is a subject upon which Mr. Wilkinson is going to address you, and therefore I will only very heartily thank you on behalf of my Council and my Society for the great honor you have done them through me. (Applause.)

CHAIRMAN.—Fifty years ago next month certain gentlemen in the city of Edinburgh, Scotland, met together and organized the Society of Accountants in Edinburgh. This is the oldest organization of accountants in the world. One of those organizers, Mr. Alexander T. Niven, is still living, and is a member of the council of the Scottish Society. His son, Mr. John Ballantine Niven, is practicing in this country, but has connections abroad. He is also a member of the Society of Accountants in Edinburgh and is with us to-day as their official representative. Mr. Niven will now address you.

JOHN BALLANTINE NIVEN, C.A., C.P.A.—Mr. Chairman and Gentlemen: I find myself, to-day, in a position which to some extent embarrasses me. While standing upon this platform in the capacity of a visitor, I feel, and am proud to be entitled to consider myself, rather one of yourselves. My hope is that I may be able to act in the peculiar dual capacity in such a manner as will meet with favor from my colleagues both in Scotland and in this country.

But at present I have the pleasure of addressing you as a visiting Member, and I can assure you of my appreciation of the

very high privilege it is to be permitted to do so—both on account of the honor attached to my appointment as the Representative of what I believe is the oldest Society of Professional Accountants now existing in the World—and for the part which it permits me to take in this first really national gathering of the kind in this country; indeed, it may be said, the first international gathering of its kind.

I regret very much that some local member of my Society is not present to-day, but at least I can assure you that, while I am a Member of the Society of Accountants in Edinburgh, I am also for personal reasons in especially close touch with the Governing Body of the Society, and I thoroughly reflect its feelings when I express its appreciation in having been invited to attend this Congress. We hope that the heartiest success will attend this meeting and even more so that the profession generally in the United States shall continue to progress with the same success which recent years have shown. We are all proud of our profession and of its possibilities as a strictly moral governor, so to speak, in the community, and we are glad to see how it is advancing in this country in the lines we have already traveled on the other side of the Atlantic. It would not indeed be fair to refer to its position here entirely as that of a *follower* in lines already laid down, for we are glad to know that in some respects the child, for we may surely call it by that affectionate term, is already passing its parent, and the profession in America is developing in certain directions even more rapidly than in the older country.

I cannot sit down without referring for one moment to the particular interest which attaches to this year in the history of our own Society in Edinburgh. We from Edinburgh, Gentlemen,—and I can also speak for at least one other member of our Society who is enrolled as a Member of this Congress,—cannot help a feeling of satisfaction in being associated with that body, and its career, now extending to half a century, fills us with a justifiable pride, a feeling which I am sure is shared by other members of the Profession at home. It is, of course, only a coincidence that within one month from this date we will be celebrating the occasion with our friends in our northern birthplace, but the two meetings, there and here, have a closer relation than at first sight appears: they each serve to bring the bodies of the profession together in different sections of the world, with one real practical aim in view, namely, the advancement and elevation of our chosen

Profession, and those fortunate to participate in either will no doubt go out again with a renewed sense of the dignity of their work and the renewed incentive which comradeship is so happy in supplying.

I thank you very much for the reception I have received, and you, Mr. Chairman, for what you have said in introducing me. (Applause.)

THE CHAIRMAN.—The Society of Accountants and Auditors, the Scottish Branch and the Society in Ireland, have, by the hand of Mr. Martin, sent us some very cordial resolutions, which, owing to the short time at our command, I will not now take the time to read.*

Our Canadian brethren are here in good force. We are delighted to see so many of them.

The Dominion Association of Chartered Accountants is represented by its President, Mr. John Hyde, whom I will ask to say a few words.

JOHN HYDE, F. C. A. (Can.)—Mr. Chairman and Gentlemen: On behalf of the Dominion Association I must convey our thanks to this Congress for the kindness shown towards us during the past six months. I would say, while I only had the pleasure of meeting Mr. Wilkinson last evening for the first time, yet from the numerous letters I have had from him with information regarding this conference, I thought I knew him very well.

I can say that we are delighted in Canada to see the progress made in the States, and we realize that any progress made in the States will be for the benefit of the profession on the Continent. (Applause.)

CHAIRMAN.—There is a strong body of chartered accountants in Montreal who are to-day represented by their President, Mr. John W. Ross. Will Mr. Ross kindly address the Congress?

JOHN W. ROSS, F. C. A. (Can.)—Mr. Chairman and members of the Federation: I thank you for your reception of me as representative of the Montreal Accountants Society. It certainly gives us a great deal of pleasure to be with you. We look forward with a great deal of anticipated pleasure and profit to the able papers that will be presented, and it has given us a great deal more pleasure to meet the members of the various Societies.

I come to-day with the greetings of the Association of Accountants in Montreal, representing as they do the chartered ac-

* NOTE.—Copies of resolutions referred to will be found in the appendix, pp. 221-223.

countants throughout the province of Quebec. They sincerely appreciate the courtesy shown in inviting them to attend this Congress, and if it should ever be our fortune to hold a Congress similar to this in Canada, to which we can invite you all, I can assure you of the same warm welcome which you have to-day accorded us.

Mr. Chairman, in the name of the Association of Accountants of Montreal I thank you. (Applause.)

CHAIRMAN.—The Institute of Chartered Accountants of Ontario is also represented in this Congress. Their Vice-President is present, Mr. F. H. Macpherson, whom I have the honor of introducing.

F. H. MACPHERSON, F.C.A.—Mr. President and Gentlemen: On behalf of the Institute of Chartered Accountants of the Province of Ontario, which I can say just here I think is perhaps the third oldest Society of Accountants in the world, I wish to say that we feel a great deal of gratification at the invitation which has been extended to us by the Federation, and the Institute did me the honor of appointing me to represent them on this occasion. I may say that since that appointment the President of our Institute has found it convenient to be here, and I properly should make way for him.

I have only to convey to you the thanks of our Institute for the invitation so kindly extended. (Applause.)

CHAIRMAN.—We will now stand adjourned until 2.30 p. m.

LUNCHEON.

Immediately after the adjournment of the morning session, the members of the Congress, their visitors and friends took the Intramural Railway to Station No. 1, close to "The Tyrolean Alps" where a cold luncheon was promptly served, which was enjoyed by all present.

Following the Luncheon the ladies of the party were dispatched on an interesting automobile trip through the grounds, while the members of the Congress hurried back to the hall.

AFTERNOON SESSION.

The Congress was called to order at 3.30, J. E. Sterrett, C. P. A. in the chair.

CHAIRMAN.—Mr. Francis, in his speech this morning, spoke of the growing importance of the city in our modern life. As accountants, believing as we do in the close relationship between accounting and order and progress, it is very fitting that a prominent place should be given in our programme to the subject of Municipal Accounting. The matter was taken up some time ago and placed in the hands of a Committee, with Elijah W. Sells, C. P. A., of New York, as Chairman, the other members being H. W. Wilmot, A. C. A., C. P. A., of Illinois; John R. Sparrow, C. P. A., of New York; Harvey S. Chase, of Massachusetts; William M. Lybrand, C. P. A., of Pennsylvania, and Ernest Reckitt, C. P. A., of Illinois.

I will ask Mr. Sells to say a few words as to the plan and purpose of the papers that are to be read this afternoon.

ELIJAH WATT SELLS, C. P. A.—Mr. Chairman and Gentlemen: The Committee on Municipal Accounts was organized for the purpose of presenting rather than preparing the papers upon this subject. The subject was divided into four sections. All of the papers were reviewed very carefully by the Committee. First, a "Brief History of the Movement toward Uniform Municipal Reports and Accounts in the United States," by Harvey S. Chase, of Boston; second, "The Municipal Balance Sheet," by Henry W. Wilmot, of New York City; "Revenues and Expenses as Distinguished from Receipts and Disbursements in Municipal Accounting." This paper will be read by F. A. Cleveland, Ph.D., of New York City. Fourth, "Appropriations," by Ernest Reckitt, C. P. A., of Chicago. Mr. Wilmot is not able to be present. It has been suggested that Mr. May read his paper for him.

CHAIRMAN.—As Mr. Sells has announced, the first of the four papers is "A Brief History of the Movement Toward Uniform Municipal Reports and Accounts in the United States," by Harvey S. Chase, of Boston, which will now be presented.

A Brief History of the Movement Toward Uniform Municipal Reports and Accounts in the United States.

By HARVEY S. CHASE, I. P. A. of Mass.,

Member of the Committee upon Uniform Municipal Accounting.

The movement toward uniform municipal reports and accounts has been gathering headway during the past ten years and, in its present phase, has culminated in the work of the United States Census Office now going on at Washington.

A brief history of this movement for the purposes of this paper must necessarily omit many matters which, although they might be found interesting to the trained accountant, would require too much space to be described here. All that can be attempted, therefore, is a very general and rapid review of the development of the idea which has resulted in the movement.

The necessity for some measure of uniformity in municipal and other public reports has been understood and urged for many years by economists and students of public affairs who found themselves seriously handicapped whenever they attempted to draw up comparative statistical tables of municipal finance. Up to a few years ago there was no uniformity in methods for municipal reports; neither in nomenclature nor in forms for statistical exhibits. At that time the situation, so far as uniformity is concerned, appeared to be hopeless for the reason that municipalities are outside the domain of national legislation, while the laws pertaining to city affairs are not alike in any two of our forty-five States, even in primary and essential matters. Worse than this the statutes regulating municipalities in many single States are found to vary very greatly, each city's charter being different from the charters of all other cities.

When the subject of uniform municipal accounting was first broached to city controllers and city auditors not many years ago, it was discountenanced by them. They considered that its realization in practice would be impossible owing to the marked differences in the laws of the various States, already referred to above.

The prospect for uniform municipal accounting was therefore sufficiently discouraging to its adherents and it was only by leaving uniformity of *accounting* severely alone for the time being and devoting all available energies to the simpler side of the question, namely, uniform municipal *reports* based upon a re-distribution of the city treasurer's accounts at the end of the year—this re-distribution being made upon uniform and comparative schedules—that any progress could be achieved. I say *treasurer's* accounts, meaning thereby cash receipts and disbursements rather than true "revenue and expense" accounts (income and expenditure), because the only ideal in the minds of the great majority of financial officers in our small and medium-sized cities has been to finance each municipality upon a strictly "cash" basis; that is to say, to actually collect in cash all of the

revenues of the municipal year during that same year and to actually pay out in cash all of the expenses which were incurred during the same period.

It appeared, therefore, simpler to get the idea of uniformity in methods definitely into the city officials' heads and to instill there a belief in the practicability of comparative municipal reports by taking the means at hand, viz.: treasury (cash) statements and transforming them annually upon uniform lines. This is the work to which the National Municipal League first addressed itself and it is the story of this particular movement which the writer is attempting to briefly chronicle here.

For the purposes of this paper we may divide the general development of the movement into periods. The first period which we shall consider is that of State legislation for the control of county officers and for the unification of county accounts and methods through State officers or boards. Some of the earliest types of such legislation were the Minnesota act passed in 1878 and the Massachusetts act passed in 1879. Both of these acts applied only to counties and to county officers. Neither of them referred directly to the "municipalities" of those States; that is, to the incorporated cities or to the towns or villages, all of which are, of course, organized only under State laws.

The good effects of these and other similar acts were made evident through improved administrative results and by greater economy in the public offices affected by these laws. After some years these effects led to the application of the same principles to all public offices including municipalities, the State of Wyoming being the first to enact such legislation. This Wyoming act was passed in 1892, and about this time there began to appear addresses and articles in reviews and magazines emphasizing the necessity of greater uniformity in public reports and in accounting methods throughout the country. The experience of the government officials charged with the collections of city statistics for the decennial censuses of 1880 and 1890 gave additional emphasis to this demand, while the difficulties encountered by statisticians and administrative officers of cities when they endeavored to make comparisons of various cities' reports laid still greater stress upon uniformity, not only in the methods of accounting, in nomenclature and in the forms of reports for cities in the same State, but also for cities of the same size in different States.

This period of academic discussion and gradual awakening of the public mind to the necessity for greater uniformity in municipal affairs may be considered the second period of the general movement. It may be said to have begun with the writings of Allen Ripley Foote, Esq., Prof. Frederick R. Clow, Prof. John R. Commons, Dr. Edward M. Hartwell and others.

In 1895 and later, uniform accounting was discussed at meetings of municipal associations in various parts of the country. These discussions were carried on in general terms only and in a somewhat vague way for the reason that the difficulties of the situation were evident, while the means for overcoming these difficulties and getting uniform methods practically applied in cities were not then evident.

What may be called the third period of the development was ushered in by the appointment in 1897 of a special committee of the National Municipal League, whose duty it was to prepare a "municipal program" which

in dealing with various phases of the municipal problem took firm hold of our particular part of it, namely, municipal financial reports and methods of accounting.

In the publication of the National Municipal League issued in 1899 and entitled "A Municipal Program," three articles or chapters were devoted to this subject, and in one of these, written by Dr. Leo S. Rowe, of the University of Pennsylvania, an outline of schedules for uniform reports of municipal expenditures was set forth. These schedules were based on various earlier tables devised by Prof. Commons, by Dr. Hartwell and others, these in turn having been derived, in part, from published statistical tables of the British and German governments relating to municipal affairs in those countries.

No practical application of any of these schedules had as yet been made in this country and none was made until two years later, when the National Municipal League, realizing the great necessity for an authoritative body of municipal experts who should make a careful study of the questions involved in uniformity of reports and accounts and advise in regard to practical forms of schedules, tables and statements, appointed such a body under the title of the "Committee upon Uniform Municipal Accounts and Statistics."

It was intended to combine in this committee representatives of those persons interested in these questions from the broad, theoretical side, and also representatives of those interested upon the side of practical application of these views to the diverse and complicated conditions of actual city affairs.

This committee therefore contained public accountants as well as professors and publicists.

At the same time that this committee was appointed, the officers of the National Municipal League requested other national bodies, such as the League of American Municipalities, the American Economical Association, the American Statistical Association, the League for Civic Improvement, the National Gas Light Association, the National Water Works Association, the National Electric Light Association and other municipal and technical societies to appoint similar committees upon uniform accounting, who should each deal with that portion of the general problem which would be naturally included in the field covered by that society, the intention being that the committee of the National Municipal League should act as a clearing house for all of these committees and bring about harmony in the development of the uniform schedules.

These committees were duly appointed by the various societies, and some of them have done good work, particularly the technical committees of the electric light companies, the gas light companies, etc., which, following the example of the National Street Railway Association, have laid out and published extended schedules for uniform reports of income and expenditure of private corporations as well as simpler statements of cash receipts and disbursements.

These schedules, after practical tests have been made by the companies and by municipal enterprises of the same nature, can, in time, be incorporated with the general scheme for city reports and methods of account-

ing which it was intended the central committees of the National Municipal League should devise.

The first meeting of the committee upon uniform municipal accounts and statistics was held at the City Club, in New York, on April 18, 1901. This meeting was attended in person by Mr. Richardson of Philadelphia, Dr. Hartwell of Boston, Prof. Bemis of Cleveland, Dr. Maltbie of New York, Mr. Baker of New York and the writer. Letters and messages were presented from other members of the committee.

After organization was effected the schedules published in Prof. Rowe's paper in the "Municipal Program" were discussed and certain modifications of these schedules were decided upon as a starting point. The general divisions of municipal functions proposed in the Program were as follows:

- I. General Government.
- II. Taxation.
- III. Public Safety.
- IV. Public Charity.
- V. Public Convenience.
- VI. Public Industries.
- VII. Public Education and Allied Subjects.
- VIII. Public Trust Funds.
- IX. Public Indebtedness.

The modifications of this arrangement as tentatively agreed upon and later elaborated in the City of Newton report were as follows:

- I. General Government with eight sub-heads.
- II. Protection of Life, Health and Property, with nine sub-heads.
- III. Public Charity, with seven sub-heads.
- IV. Public Works, with twelve sub-heads.
- V. Public Industries, with nine sub-heads.
- VI. Public Education, Recreation and Art, with seven sub-heads.
- VII. Public Trust Funds.
- VIII. Miscellaneous.
- IX. Taxation, with eight sub-heads.
- X. Public Indebtedness.

Also a general division called "Book Accounts," with three sub-heads.

This rearrangement of the titles of the schedules was provisionally settled only after much discussion during sessions of the committee which continued for two days. During these discussions it became evident that the only satisfactory way to test the schedules would be to apply them in practice to some city's annual report, a city of moderate size being preferable for a beginning.

The city of Newton, Mass., in which the writer resides, has a population of about 35,000, and is an enterprising and progressive municipality. It was suggested that the city auditor's report of Newton would form an excellent subject for an analysis of the municipal disbursements during the fiscal year 1900, according to the distribution set forth in the schedules proposed by the committee, and on returning to Boston steps were immediately taken to have such an application made.

CITY OF NEWTON REPORT.

A petition was put in circulation praying the city council of Newton, which consists of one chamber, to authorize the addition of an appendix to the city auditor's report for the fiscal year ending December 31st, 1900. This appendix, as the petition explained, was intended to contain the financial transactions of the city for the year arranged upon the "uniform" schedules of the National Municipal League.

The signatures of many influential men, ex-mayors, congressional representatives, etc., were obtained for this petition, and it was referred to the finance committee by the Board of Aldermen. The finance committee gave a hearing, reported favorably and the appendix was authorized. Meanwhile, as the accounts of 1900 were not then completed, the printed report for the previous year, 1899, was taken and the items therein analyzed, verified and carefully re-distributed upon blank forms prepared according to the league's schedules. This was a work of considerable difficulty, there being no precedents to guide us as no other city's accounts had ever been similarly arranged. The distribution of the accounts in the regular Newton report was, however, an excellent one in many respects, and the re-distribution for 1899 was accomplished with reasonable promptness, so that the complete transactions for one year were soon verified, analyzed, distributed and balanced correctly.

The figures for the annual report of the year just ended, 1900, which were in manuscript, were then taken and introduced on similar blank forms as rapidly as they were submitted by the officials, so that the new schedules were completed and ready for the printer at the same time as the regular official report.

When the report was printed and circulated a very considerable demand for it sprang up, so that in a short time the edition was exhausted.

The league's committee could then point to a practical application of the schedules to a city's report and this counted for much in the subsequent development of the movement.

At the meeting of the league in Rochester, N. Y., on May 11, 1901, copies of the Newton report were distributed and Mr. James H. Johnson, the city controller of Rochester, who had explained the system of accounting carried on under his direction, volunteered to append to his next annual report a similar summary of receipts and expenditures. This re-distribution did not appear during Mr. Johnson's term of office, but the Rochester report will hereafter be published according to the league's forms, as explained later on.

CITY OF BALTIMORE REPORT.

The city comptroller of Baltimore having received copies of the Newton report decided to issue a similar appendix for his own annual report and did so, following the arrangement of the Newton schedules and using the same type, etc. After this application the comptroller, Mr. James H. Smith, strongly endorsed the uniform system of distribution and in an address before the League of American Municipalities advised all city comptrollers and auditors to examine the schedules and to apply them to their respective city reports.

CITY OF CHICAGO.

During this period agitation had been going on for some time in Chicago in regard to the condition of the special assessments accounts of that city and to the general system of bookkeeping. Correspondence had also been held by various members of the League's committee with citizens of Chicago, who were taking the initiative in this movement.

Meanwhile additions had been made to the membership of the National League's committee, which included a prominent public accountant of New York, whose firm later undertook contracts with the city of Chicago on both the subjects mentioned.

In consultation with the writer and under the stimulus of the definite applications in Newton and Baltimore, the firm decided to apply the league's schedules to the accounting system and the fiscal reports of Chicago if it were possible to do so under the requirements of law in that city.

The first thing necessary, therefore, was a thorough study of the laws of the State of Illinois as they applied to the finances and accounting of the city of Chicago, and next a very thorough investigation of the actual conditions of the city's accounts. Four months of the most laborious preliminary work was done in these examinations of the statutes and ordinances and of the accounts and the general conditions in the departments. This operation was an exceedingly difficult and intricate one, as special requirements of law were met at every turn which appeared to make it impractical to apply any schedules of a general and uniform nature. In fact, it seemed frequently as if Chicago must be left outside the pale, so far as uniformity of accounts was concerned, until a time should arrive when very marked changes could be brought about in the statutes of the State as well as in the ordinances of the city. Finally, however, as much of the league's schedules as could be applied under the requirements of the then present laws was arranged for by the accounting firm and these schedules, comprising the greater part of the league's program, were set forth in the city comptroller's report which was published a year later.

The work at Chicago, as completed by the firm of accountants already referred to, was an immensely greater piece of work than anything which had preceded it, as this work included a comprehensive and complete accounting system, whereas the preceding applications of the schedules had to do only with the annual fiscal reports.

Following Chicago, other applications of the uniform schedules were made in Brookline, Mass.; in Boston, Mass.; in Houston, Texas, and in other cities.

STATE OF OHIO.

The most notable applications of the league's tables were made in the State of Ohio, where, in May, 1902, a bill establishing a "Bureau of Inspection and Supervision of Public Offices" and requiring uniform municipal reports and accounts throughout the State was enacted into law by the legislature. This bill, which is now historic and is familiar to most of you, was the result of the persistent efforts of Mr. Allen Ripley Foote, editor of *Public Policy*, associated with the County Auditors' Association and other influential bodies in the State of Ohio.

Soon after the passage of this bill the supreme court of Ohio handed down a momentous decision in a test case which declared, practically, that no city in the State of Ohio had at that time a constitutional charter.

In order to prevent the chaos in municipal governments which the promulgation of such a decision would bring about, the court delayed the application of its order until the following September, thus allowing opportunity for a special session of the legislature to be called by the governor and a new municipal code to be enacted which should apply to all cities in Ohio alike.

This code, while a very serious matter for the cities and their governments, was a most happy event for the successful application of uniform accounts and reports throughout the State. Without it the Bureau of Inspection would have found itself involved in an interminable tangle of conflicting charters, special laws, peculiar interpretations, etc., etc., which now were wholly done away with by the supreme court's decision and by the new uniform code of municipal law.

The auditor of the State of Ohio, who is chief of the Bureau of Inspection and Supervision, determined to establish the new accounting system upon the league's lines if possible, and called the writer into consultation.

The details of this application in Ohio have been set forth in papers before meetings of the league and elsewhere, and need not be repeated here further than to state that the first requisite in Ohio, as in Chicago, was a thorough and complete study of the law, viz.: The old charters of the cities, the new code, the uniform accounting act itself, etc., etc.

After long continued adaptation of the league's forms to these requirements of law the schedules as now adopted in Ohio were produced. In all important matters these forms are practically the same as the "uniform" schedules. In the "B" schedules—balance sheet—they are identical.

Having devised the schedules the applications to practice were then made by visiting the cities of Ohio in succession, Columbus, Cleveland, Cincinnati, Toledo, Dayton, etc., etc., and by taking the figures of the last fiscal year for analysis, re-distribution and verification exactly as had been previously done in Newton, Chicago, Boston, etc.

A convention of the city solicitors of the State was called at Columbus to discuss various points in the new laws and to determine upon methods of procedure, etc., for the purpose of promoting uniformity in the cities, and later a convention of the newly elected city auditors of the State was called for the same purpose. At the latter convention ruled and printed sheets representing the different accounting books proposed by the bureau were distributed together with printed instructions for their use. Each city auditor throughout the State was furnished with these sheets and instructions and required to provide books in accordance therewith.

Meanwhile the propositions relating to city accounting were only a portion of the matters with which the Bureau of Inspection had to deal.

The provisions of the uniform accounting law required the bureau to apply the principles of uniformity to counties, towns, road districts, school districts and all other civil divisions of the State, and a large portion of the time of the officials has been necessarily taken up with these matters, so that

it has been impossible for the bureau to give the attention necessary for the full completion of the city schedules.

Following Ohio other applications have been made in Cambridge, Mass., in Oklahoma City, in Minneapolis, Minnesota, in Rochester, N. Y., in St. Joseph, Missouri, and in various other cities, including reports upon the same uniform lines for all the cities of the great State of New York, Buffalo and the City of New York only excepted.

The schedules for New York State were prepared for the Secretary of State upon the general lines of the National Municipal League forms as adopted by the U. S. Census.

FOURTH PERIOD.

The work of the U. S. Census is so important that it may well be considered as forming a separate period, the fourth, in the development of the movement.

This work began in the Department of Labor in 1898 under authority of an act of Congress which required the department "To compile and publish annually an abstract of the main features of the official statistics of the cities of the United States having over 30,000 inhabitants."

The department has published tables, entitled "Statistics of Cities," which relate chiefly to receipts, disbursements and debts for the years 1898, 1899, 1900 and 1901, respectively. The preparation of "Statistics of Cities" was taken over in 1903 by the permanent Census Bureau.

UNITED STATES CENSUS.

In November, 1903, a convention was called at Washington by the Director of the Census for the purpose of bringing together public accountants, city and State officials and others interested in the questions relating to uniform municipal reports and accounts.

This convention held sessions for two days and evenings, appointed committees and thoroughly discussed many important matters pertaining to the subject in hand.

At this convention copies of the Census schedules, which are returned by its agents from all cities of over thirty thousand population in the country, were distributed, and it was thereby evident that the schedules of the league had been taken as a basis of these forms.

After much interesting discussion, which at times waxed warm, particularly over questions relating to municipal balance sheets, the convention adjourned subject to call by the chairman, Mr. L. G. Powers, Chief Statistician of the "Wealth, Debt and Taxation" division of the Census.

An Advisory Committee of which Mr. L. E. McGann, City Comptroller of Chicago, is the chairman will meanwhile assist the Census officials when called upon.

The proceedings of this convention have been published in full by the government printing office at Washington in a pamphlet, entitled, "Uniform Municipal Accounting," to which those especially interested in this subject are referred.

FIFTH PERIOD.

The fifth period of the movement we may now consider to be inaugu-

rated by the important position given to our subject in the present Congress of Accountants here at St. Louis. The fundamental basis of correct municipal accounting is now being thoroughly discussed from a true accounting standpoint as witnessed in the other papers presented at this meeting. This true accounting standpoint is of course "revenue and expense" in contradistinction to cash receipts and disbursements.

It would appear that the time is now ripe for the education of the public as well as the financial officers of cities along this line of correct accounting with which other papers of this afternoon will deal.

The fact should be made clear, however, that emphasis should not be laid too peremptorily upon the immediate adoption of "revenue and expense" methods in the general books of all cities. If this emphasis be too strongly laid it will be likely to discourage many financial officers in the smaller cities of the country who are now, or soon will be, struggling with the problem of bringing their present statements of cash receipts and disbursements into line with the schedules of the National Municipal League.

Let them take that step first and as soon as possible thereafter let them learn to apply the principles of correct accounting through a complete "revenue and expense" system in their municipal affairs.

It should not be forgotten that simplicity of accounting methods is essential in nearly all our smaller cities where city bookkeepers and auditors have had but little experience in good accounting practice and almost no theoretical training. Simple cash statements frequently tax their abilities to the limit. It is, therefore, a question well worth discussion at this Congress whether it is advisable to urge radical changes in these small cities if cash statements will suffice for the present until revenue and expense accounting shall be established in the larger cities where cash statements will not suffice and where there are chances of obtaining better trained bookkeepers together with greater permanency of tenure in office.

We must remember also that the law in practically all city charters recognizes only *cash* assets and liabilities and that the average city accountant looks no further than to the actual requirements of law.

We must not be surprised therefore if advance toward uniform and comparative municipal reports and the application of correct accounting principles be wearisomely slow in the great majority of our smaller cities.

An attitude of hopefulness is, however, justified by the remarkable progress already made in the past few years.

CHAIRMAN.—As has already been intimated, the next paper on this subject is one that has been prepared by Henry W. Wilmot, A. C. A., C. P. A., of New York City. Unfortunately, Mr. Wilmot is unable to be present, but the paper on "The Municipal Balance Sheet" will now be read by George O. May, A.C.A., C.P.A., Mr. Wilmot's business partner.

The Municipal Balance Sheet.

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The diverse legal and financial conditions of different Cities and the numerous minor differences of administration in various States somewhat militate against the adoption of a standard form of Municipal Report, but as has been seen from previous papers of this series, it is certainly most desirable that some common form should be adopted, and it is not impossible that eventually some general understanding on the question may be arrived at.

The general facts to be presented in the Annual Statements of Cities and the objects to be attained by published Reports are practically the same in all Cities, viz.: To provide Taxpayers, Bondholders and others interested in the City's finances with (1) a concise accounting of the administration during the year, and (2) a correct statement of the City's financial position at the close of the year.

It is proposed to confine this article to a consideration of questions affecting the latter, viz.: the Statement showing the City's financial position, first indicating the necessity for such a Statement or Balance Sheet; secondly, discussing briefly certain questions of principle that are met with in its preparation, and finally, suggesting a general form of City Balance Sheet.

I. THE NECESSITY FOR A CITY BALANCE SHEET.

In spite of the fact that the Charters of many Cities in the United States require that "the precise financial position of the City at the close of the fiscal year" should be shown, it is surprising to find that a mere account of Receipts and Payments, supplemented by statistics relating to outstanding Bonds, is often considered to fulfill the requirements.

Such words as those quoted above are, it is submitted, intended to require a statement that will exhibit a true and correct view of the state of the City's finances, including all debts due to and by the city—such a statement indeed as is contemplated by one of the most recent enactments on the subject, viz., the Town Councils (Scotland) Act, 1900.

The particulars given by many Cities regarding outstanding Bonds and Liabilities and Sinking Fund Redemptions, while interesting in themselves, are of little use for administrative purposes without the Assets side of the account, especially when it is desired to compare the assets of the various departments of different Cities in relation to their respective debts.

Moreover, in order to form any opinion on the general position of the City's finances and the value of its Securities, the Taxpayers themselves and investors need information on at least the following points, viz.: The Capital invested in various Works or Undertakings; the shape in which this in-

vestment exists, viz., whether Fixed or Current; the Revenues (whether from Taxes or other sources) due and uncollected or accrued; the City's liabilities on Capital Account and Revenue Account; the provision made for redemption of Funded Debt, and the Limit of Indebtedness.

The total Capital Expenditure under the different categories per head of population or per dollar of property valuation as compared with other Cities; the control by one City of the various public utilities with a debt in respect thereof lower or higher than in another; the amount of Debt and its relation to the population and assessed valuation, are all elements of great importance, and every well regulated City should annually present in correctly prepared Accounts all the financial data which form the basis of such statistics.

A few Cities in the United States, as for example the Cities of Chicago and Cincinnati, have recently published Balance Sheets, while others are taking steps in the same direction, and the Cities of Minneapolis and Rochester (N. Y.) are prominent among those which are introducing new systems of accounting with a view to facilitating among other things the presentation of a complete Balance Sheet.

Generally speaking, however, City Comptrollers and Treasurers do not sufficiently realize the importance of the Balance Sheet from the point of view presented above, possibly for the reason that the security afforded to Bondholders does not lie in the Assets of the City, but rather in the power which the City possesses to redeem its obligations through the levy of Taxes, insolvency being a contingency too remote to merit consideration.

There are those who doubt whether the financial position of a City can be presented in ordinary Balance Sheet form, and contend that such a statement is liable to cause confusion in the mind of the Taxpayer. This, however, seems to be mainly a question of suitability of form.

II. QUESTIONS OF PRINCIPLE

A Municipal Balance Sheet is a combination of two classes of Assets and Liabilities, which correspond with the two kinds of activity of City administration:

- (a) Those which relate to the financial position of the City in regard to its chief or obligatory purpose, viz., the preservation of order and good government and such arrangements as have to do with the convenience and protection of the citizens, viz., Health, Public Safety, Judiciary, etc.;
- (b) Those which relate to the commercial undertakings of the Municipality. These are restricted usually to public utilities, providing commodities for which citizens pay according to their use of them, such as Gas and Water Companies, Street Railways, etc.

As regards the latter class (b), no difficulty arises, the items to be presented being practically the same as would be desired if the undertakings were carried on by a Commercial Corporation.

It is in regard to the statement of the accounts of the former class (a)—where the Revenue-producing qualities are not present—that difficulties occur.

The main difference between the Balance Sheet of a City and that of a commercial Corporation lies in the fact that a City has no obligation equivalent to Capital Stock. The item in a city Balance Sheet most nearly corresponding to this is the Capital Surplus or Difference between the value of the Fixed Properties and the Bonded Debt (less any unexpended portion of the proceeds of Bonds raised to acquire such properties)—in other words, the amount invested by the Taxpayers in those permanent investments which are incident to the corporate life of the community.

A city can hardly be said to have any other permanent surplus, inasmuch as any Revenues unexpended at the end of the fiscal period are applicable to the reduction of future taxation. In arriving at such unexpended Revenues, however, care must be taken to provide for possible shrinkage on the realization of accounts not yet collected; otherwise the taxing authorities may be misled as to the amount of cash available or to become available during the fiscal year immediately following.

In stating the Surplus Account in the Balance Sheet, the Current or Revenue Surplus should be shown distinct from the Capital Surplus, which latter would always be represented either by Fixed Assets or by Current Assets specifically appropriated for conversion into Fixed Assets.

A condition may arise when part of the City's Capital Surplus may be permanently represented, not by Fixed Assets, but by Current Assets, as, for instance, on the retirement of Bonds raised for Local Improvements.

The proceeds of such Bonds are used to enable the City to spread the collections of special assessments for Improvements over a term of years. As and when the collections are made the moneys are again used for further Local Improvements, the new assessments on account of which are in turn spread over a further term of years. The intention of this method is that the outstanding Local Improvement Bonds shall always be offset by an equal amount of cash, installments of assessments not yet due, or improvements in progress (to be ultimately assessed). In some Cities, however, Local Improvement Bonds are retired by means of a General Sinking Fund, and thus a Capital Surplus of Current Assets is created.

These Current Assets are, however, not available for general purposes, but only for Local Improvements, and the Surplus which they represent is, therefore, part of the Capital Surplus and not part of the Surplus available for the reduction of future Taxation.

Some City Balance Sheets recently published show in a Surplus Account the excess of Current Assets over Current Liabilities, which excess is presumably intended to represent the available Surplus. This method of stating the Balance Sheet appears somewhat unsafe for general adoption, inasmuch as it is implied that the realization of the Assets may be applied to the liquidation of the Liabilities. It may happen, however, that in a Balance Sheet so stated the Current Assets contain unexpended portions of Bond issues raised for specific Capital expenditures, or uncollected Taxes (or Cash) specifically applicable to Permanent Improvements. In such cases the Net Current Assets bear little or no relation to the resources of the City available for general purposes.

It is of great importance that no inconsistency or misapplication of the distinct Funds of the City should be introduced into the accounts. One of the fundamental principles upon which a Municipal Balance Sheet should be made up is the marshalling of the Assets and Liabilities in their respective and specific Funds.

Owing to the differences in the laws of various States and the diversity of local regulations, no general classification of municipal Funds can be given, but the following grouping may be taken as a practical example of what may be found in the average municipality:

(1) General City Funds, *i.e.*, funds for the maintenance of the City;

(2) Fixed Property Funds, *i.e.*, Funds created through Bond issues or otherwise to acquire Permanent Properties, such as Public Buildings, Parks, Industrial Undertakings, etc.;

(3) Sinking Funds, *i.e.*, Moneys set aside for the redemption of the Bonded Debt. In municipal accounts such Funds are usually connected with moneys borrowed for public purposes in connection with the construction of permanent work;

(4) Trust Funds, *i.e.*, Money or Investments held by, but not belonging to, the City, the principal and income of which is to be used for a certain specified purpose distinct from the general maintenance of the City and which must be accounted for to beneficiaries.

(1). GENERAL CITY FUNDS.

The Charters of many Cities limit the levying of Taxes and borrowing powers to specified purposes and provide that the proceeds of Tax Levies or Bond Issues for such purposes shall not be diverted into any other channel. A series of Funds is in this way created, each Fund having its own Revenues and Expenses and also its own Assets and Liabilities—a position somewhat similar to that of a private estate held in trust and divided in such a manner that each beneficiary derives an income from specific investments, the capital values of which in time revert to residuary legatees.

(There should be a Fund for every specific purpose for which moneys are raised and for which the administration is responsible to a distinct class of the public, but Appropriations are not regarded as Funds, but as mere estimates or maximum limits of expenditure.)

The following may be taken as a general description of the Funds coming under the heading of General City Funds:

(a) City Fund, which provides for the general expenses of the City to be paid out of General Revenue and Taxation and for such Improvements as are to be borne by the current year's Taxation;

(b) Funds for self-supporting but not profit-providing interests, *e.g.*, Cemetery Fund;

(c) Local Improvement Funds, *e.g.*, Sewer District Funds, for which special Taxes are levied and which are available for the payment of principal and interest on Sewer Debt only;

(d) Funds of such departments as must be kept distinct owing to specific provisions in the law;

(e) Various Funds, moneys of which are available for special purposes only.

The excess of the Assets over the Liabilities in each Fund is the Fund Surplus. In the case of the City Fund (a) this Surplus will indicate the excess for the year of Revenue over the Expense for which appropriations were made. It is of course desirable that the Improvements (referred to above) paid for out of the City Fund should not be lost sight of, but should be carried permanently as an Asset on the books. A transfer will therefore have to be made at the close of the year from the City Fund Revenue and Expense Account to Capital Surplus Account of the amount expended for Improvements out of Revenue during the year.

The balance then left in the Current Surplus Account of the City Fund, taken in conjunction with the Deferred Charges which have to be met out of the Current Surplus, will represent the free moneys available for general purposes.

In preparing the Balance Sheet of the General City Funds it will be important to show such Assets as are Current separate from those that are Deferred. For instance, instalments of assessments collectible over a term of years should not be grouped with Taxes collectible in the current year. All such demands as are legally payable on or before the date of the Balance Sheet, such as Delinquent Taxes and Assessments, should be included among the Assets; but it is doubtful whether any useful purpose is served by including Interest Accrued on Delinquent Taxes or on Deferred Assessments. In the case of the former, the addition of interest merely increases the book value of the least realizable of Taxes, and even though the City bid in the property at Tax Sale for the full amount of Interest, Penalty and Tax, it is hardly justified in taking credit in the Revenue Account for such increases. As regards Interest on Deferred Assessments, credit should not be taken for Interest until it actually becomes receivable.

Turning to the other side of the General City Funds Balance Sheet, the Claims, Warrants or Accounts Payable and Temporary Loans will of course appear. Damage Judgments and special Liabilities which are not provided for in the Taxes or Assessments already levied should be shown, but exceptional items might be offset by an Asset, "Deferred Charges"—that is, obligations chargeable against future years' Revenue.

In general, while the Current Assets should be limited to what safely may be regarded as good, all the undischarged liabilities appertaining to the year should be brought into account. Otherwise the Taxpayers of one year may be made to pay obligations which ought to have been met by the Taxpayers of another year. It has sometimes been suspected that the motive for the holding back of claims over the year has been to throw an increase of Taxes on the next administration. However that may be, such manipulation ought not to be possible, and indeed would not be, were the presentation of correct Balance Sheets made obligatory.

(2). FIXED PROPERTY FUNDS.

There is considerable difference of opinion as to the extent Capital Expenditure should appear in a City Balance Sheet, but there can be no doubt that a line of demarcation should be drawn very clearly between:

(a) Revenue-yielding Property, such as that for Docks, Gas-works, Water-works, etc., and

(b) Non-revenue-yielding Property, such as Sewers, Pavements, Bridges, etc.

Some authorities consider that, in view of the fact that the value of the latter class (b)—viz., of unremunerative and unsalable property—cannot be expressed in money, such Assets should be omitted, and that only class (a) should be included, so that the Capital Surplus may represent a Surplus, actual and tangible, of properties of a realizable character acquired by the municipality through the liquidation of debt out of Revenue.

Others advocate that all the Capital Investments should be originally carried in the Balance Sheet, but that as the Bonds raised for the purpose of creating the properties are retired the values should be written off. The objection to this method is that as the Loans in respect of the properties are paid off the book values of the properties are reduced, with the result that the greater the proportion of the debt redeemed the less the book value of the Asset.

The cancellation of a debt through the operation of the Sinking Fund does not, as a matter of fact, affect the condition of the Assets in any way, whether they are remunerative or unremunerative. The Assets are in no way disturbed, and it seems hardly proper, therefore, that the book values should be reduced in this arbitrary manner.

The natural result when loans on Properties are repaid through the operation of a sinking fund is that the Capital Surplus increases. The difficulty may, therefore, be met by leaving the Asset at its original value, making a transfer from the relative Sinking Fund Reserve to Capital Surplus Account when the loans against it are paid off.

By this means the Assets would be retained in the Balance Sheet at their actual cost on the one hand, while on the other hand the position of the Sinking Fund with regard to the Mortgage Debt from its inception would be shown.

The following appears, on the whole, to be the most satisfactory method, viz.: To include all the serviceable property (that is, property which is fulfilling the purpose for which it was intended) classified as follows and set opposite the relative Bonded Indebtedness:

(1) Property which could be sold, if desired, without interfering with the conveniences or facilities already enjoyed by the public. Such are Water-works, Gas-works, Street Railways, etc., which are frequently in the nature of a monopoly and are taken over by the City to improve or cheapen the service;

(2) Property which might be sold without hampering the administration of the City, but the disposition of which would involve a loss of comfort or convenience to the public. Such are Parks, City Halls, Free Libraries, Recreation Grounds, etc.;

(3) Property which it would be impossible for the City to sell under any circumstances, such as Sewers, Street Improvements, etc.

This classification is clearly and tersely expressed in the accounts of the City of Bolton, England:

- (1) Assets remunerative and realizable;
- (2) Assets unremunerative but realizable;
- (3) Assets unremunerative and unrealizable.

It is quite obvious that the first class (1), representing a marketable investment, should appear in a Balance Sheet. It is as much an Asset of the City as the Bonded Debt is a Liability, and could in an extreme case be used to defray that Liability.

The second class (2) is in a measure upheld by the same argument. The inclusion of the third class (3) is defended on different grounds, viz., the importance of recording for administrative purposes the whole of the investments (whether realizable or not) for which there is present value to the City as a "going concern," and of showing the increase or decrease in such investments from year to year.

Extravagance or dishonesty of administration may occur in the purchase or construction of public improvements as well as in the ordinary administration of the City, and if the cost of all existing and serviceable assets appears clearly in the financial reports of a City, such extravagance or dishonesty can more readily be detected.

Moreover, for the purpose of comparing the expenditures of one City with those of another it is important that the accounts should show clearly the exact manner in which loans have been expended and the residual value which may fairly be said to remain as an asset.

Such properties as have gone out of existence or have been abandoned should be written off against the Capital Surplus so as to leave in the Balance Sheet only existing properties.

VALUE OF CAPITAL ASSETS.	As regards the Values to be put on these Assets in the Balance Sheet, inasmuch as it is evident that the possibility of actually realizing the City's Assets need not enter into the question, but that the City must be considered as a "going concern," there appears to be only one basis which is defensible, viz., Cost (less Depreciation where desirable).
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There can be little doubt that it is the Cost which is of interest to Taxpayers, though if a comparative exhibit showing also the present reproductive Values could be separately published, the information would be of considerable interest. In such a supplemental statement due consideration could be given to questions of depreciation and appreciation. To properties acquired by bequest fair values at the date of acquisition should be applied.

In actual practice some difficulty may be experienced in obtaining Cost values of the Permanent Assets, and in many cases it may be necessary to take appraised values as a starting point.

The practical treatment in Municipal Accounts of such Assets as School Equipment, Books at Public Libraries, Fire and Police Department Equipment, is a somewhat difficult question. No doubt the correct treatment would be to take an actual inventory at each fiscal period for the adjustment

of the Capital values, but if this be found impracticable, the first Cost values may be treated as Capital Investments, all subsequent purchases except those in respect of the numerical increases in the Schools, Fire and Police Stations, etc., being charged off as Maintenance.

(3) SINKING FUNDS.

The redemption of Municipal Debt may be accomplished by various methods; for example: (1) By reserving the annual appropriation of principal until the same has accumulated to the amount of the Bonds. Under this method the full amount of interest and a proportion of the principal are annually collected, the interest being paid to the Bondholders and the principal being paid into the "Sinking Fund," which Fund should be made to earn such a rate of interest during the existence of the debt that at the maturity of the Bonds there will be in this Fund sufficient to repay the principal; or (2), by the Installment or Annuity plan, where the repayments are figured so that equal repayments of the Bonds may be annually made.

A discussion of the question as to which is the best method of repayment hardly comes within the scope of this paper, but it may be said that the difficulty of keeping the Sinking Fund profitably invested and the possibility of the manipulation of the Fund by dishonest officials has led to the gradual rejection of the former method in America.

It should be noted that a liability for the repayment of the debt theoretically begins immediately the capital expenditure is incurred, and whatever method of redemption be adopted this obligation should be reserved for annually, and the Reserve should always be offset in the Balance Sheet by an equal amount of Sinking Fund Assets.

Some Cities in their financial statements deduct the Sinking Fund Assets from the Bonded Debt and merge the Sinking Fund Reserve with a General Surplus. As the Sinking Fund Reserve usually represents an appropriation of Revenues for specific purposes, the preferable method is to treat such Reserve as a liability until the Bonds are retired, when it should be transferred to the Capital Surplus. The Surplus created by the transfer from the Sinking Fund Reserve to Capital Surplus Account would be offset by the Properties acquired out of the proceeds of the Bonds retired.

(4). TRUST FUNDS.

These are Funds in the hands of the City Officials in Trust, such as Firemen's Relief Fund, Police Pension Fund, Private Bequests for specific purposes, which form a separate Department of Accounts, the accountability being primarily to individuals other than the Taxpayers (as such).

As in the case of the Sinking Funds, the Fund Assets, whether in the shape of Property, Investments, Current Assets or outstanding Revenues, should be clearly stated, being offset by the Trust Capital Account.

Turning to the second general class of Balance Sheets—
THE COMMERCIAL UNDERTAKINGS OF CITIES. that dealing with the Commercial Undertakings of the City—in order that the benefit to the Taxpayers arising from the operation of such enterprises may be accurately measured, it is essential that the accounts be dealt with on a sound commercial basis. The cash resources of the undertaking should be kept distinct from the general Funds of the City; all

departments using the product of the undertakings or benefiting therefrom in any way should be charged at reasonable rates, while the enterprises should bear their own burden in respect of interest on loan capital.

Proper provision should be made for Depreciation or Accruing Renewals of the Plants before any Surplus is turned into the general treasury for the "relief of Taxes." It need hardly be said that every Commercial Enterprise should on business principles set aside out of profits sufficient reserve to cover the shrinkage in the value of the Plant through wear and tear or obsolescence, which is not met by expenditure on repairs, and this rule applies equally to the Commercial Undertakings of Municipalities. The cost of preserving the Plant in revenue-bearing order is the same whether the enterprise is in the hands of the City or a private Company; the risk of obsolescence is the same, and the provision to be made for ultimate re-instatement should be the same.

The question of depreciation, however, should not be confounded with that of the Sinking Fund allocations. The object of the Sinking Fund is entirely different from that of the Depreciation Reserve. The Sinking Fund is to provide for the repayment of Debt, while the Depreciation Reserve is a provision for accruing Renewals. The latter is to some extent determined by the useful life of the subject, but the annual Sinking Fund allocation need not necessarily have any reference thereto.

It is true that the term of the Debt is often limited to the estimated useful life of the subject, and in such cases where the Sinking Fund provision is charged against the profits of the undertaking, as is required by the Local Government Board in England, it is claimed (and not without some show of reason) that there is no further obligation upon the Municipality with regard to Reserves, inasmuch as the Sinking Fund provision takes the place of Depreciation.

This method provides for the repayment of the loan by the time the subject has become obsolete, but does not provide capital for future work or for extensions. The City must again obtain a fresh loan, and thus the system of borrowing and paying off goes on continually.

Some Cities, on the other hand, provide out of the profits of their commercial undertakings, not only for Depreciation, but also for the repayment during the life of the plant, etc., of the Capital borrowed. The result is that the present generation is not only made to repay the Capital invested in the undertaking, but also to provide Capital for successive generations for new enterprises.

This method practically takes the life of the subject into account twice and lays a burden on the present generation, the enterprise being at the same time handicapped as no private undertaking would be.

The way out of the dilemma thus presented seems to be to make full provision for Depreciation by creating a Reserve to which the expenditures on extraordinary Renewals may be charged as and when they occur, Sinking Fund Provisions being made at the same time, not based, however, on the life of the present Plant. The repayment of the debt might be spread over (say) two generations. Progress would thus be made with the repayment of the debt, while the Plant, etc., would be either kept in up-to-date order,

or have the required Capital in hand ready for extraordinary Renewals or Extensions when they become necessary.

If a Depreciation Reserve such as the above be raised, there does not appear to be from the accounting point of view any reason why the Sinking Fund provision should be charged against the profits of the particular enterprise in respect of which the loan was raised, for it makes practically no difference to the Taxpayer whether the Sinking Fund provision is charged against the profits of the undertaking, the balance being carried to the relief of the Taxes, or whether the profits are carried to the relief of the Taxes and the Sinking Fund provision is made by special addition to the Tax Levy; the latter method, however, enables a clearer statement of the profits of the undertaking to be presented.

III. SUGGESTIONS AS TO THE FORM OF A CITY BALANCE SHEET.

Having touched on the principles governing the various departments of account into which the City's Finances are divided, there remains the question of the form in which the financial position of the City as a whole and of the various groups may best be presented.

As a rule, even where City reports give ample data, the information is so scattered and so badly referenced that it is almost impossible for a layman to put together a comprehensive statement. It should be the aim of the Comptroller to prepare a set of Accounts that can be readily grasped by the average Taxpayer.

While no question is more debatable than the best form in which a Balance Sheet should be presented under the different circumstances which exist in American Cities, probably the most satisfactory form will be found to be the ordinary commercial Aggregate Balance Sheet supported by a Columnar Statement showing a condensed summary of the Assets, Liabilities and Surplus (divided between Capital and Current) of each separate Fund and Commercial Undertaking.

In this Columnar Statement the various classes of City Funds would be set out horizontally, the Assets and Liabilities being carried in vertical columns. The totals of the vertical columns would agree with the various groups of Assets and Liabilities appearing in the Aggregate Balance Sheet.

The City Properties should be divided on the face of the Aggregate Balance Sheet into three main classes, viz.: Remunerative and Realizable, Unremunerative but Realizable, Unremunerative and Unrealizable. Each class should be supported by a separate explanatory schedule giving full details of the items included and containing information as to the method of valuation adopted and on such other points as would be of interest to the public.

In the same way, where sufficient details of the Current Assets and Liabilities cannot be conveniently shown on the face of the Balance Sheet, the necessary information should be given in separate schedules. A complete series of references should be given from the Aggregate Balance Sheet to the detailed exhibits.

As before stated, a distinct line should be drawn in the Aggregate Balance Sheet between the Capital Surplus and Current or Revenue Surplus.

Both should, where practicable, be subdivided in such a manner as to leave no doubt as to what they represent, for example:

Capital Surplus:

Proportion of Cost of Fixed Properties acquired by Taxation:

Through Sinking Funds.....	\$.....
Through Special Assessment for Water Mains.....	.....
Through Special Assessments for other Public Improvements.....	.....
Purchased from Current Revenues....	.....
	\$.....
Fixed Properties acquired by Bequest....	.....
Excess of Cash Assets applicable to Local Improvements (created through operation of Sinking Fund).....	.....

NOTE.—The above is made up as follows:

Capital Assets.....	\$.....
Current Assets appropriated for conversion into Capital Assets.....	.....
Total	
Deduct Bonded Debt.....	.....
Capital Surplus.....	

Current Surplus, being excess of Cash Assets applicable to reduction of Taxation:

General Fund.....	\$.....
Industrial Enterprise.....	.....
	
	\$.....

In whatever form the Aggregate Balance Sheet is presented, it must be borne in mind that the financial statement of a City cannot be looked at in the same light as that of an ordinary Trading Corporation. The introduction of the Bonded Debt of a City on the one hand does not imply the possibility of the realization of City Properties on the other to liquidate it in the commercial sense; neither can the Current Assets be assumed to offset in total the Current Liabilities in total, inasmuch as the distinction of Funds must be maintained. (In the form suggested this distinction is maintained in the columnar statement of the Fund Assets and Liabilities.)

It is not proposed that the position of the City in regard to its Borrowing Powers should be shown on the face of the Aggregate Balance Sheet, but this should be given in a supplementary statement.

The absence of a complete statement of Borrowing Powers is frequently a defect in City reports. As the Borrowing Powers of Cities are usually limited to a percentage of the Assessed Valuation of Taxable Property within its borders, and as both the Assessed Valuation and the Bonded Debt are constantly fluctuating, it is important that the relation between them should be watched by the City Officials, bearing in mind that a large margin of Borrowing Power is a considerable advantage when money is required.

A statement, moreover, is due to Taxpayers showing these particulars, which may be conveniently set out in tabular form giving the assessed value of the Taxable Property, the total amount of Bonds which may be legally raised on this valuation, the present Debt, the Unexhausted Borrowing Powers, and the purposes for which the remaining Bonds may be raised.

In conclusion it must be admitted that the form in which a City Balance Sheet can be presented necessarily depends on the accounting system in use in the city, and the suggestions here made are subject to this limitation. Unfortunately it is only too evident that not only would it be impossible at present for many American Cities to prepare a Balance Sheet embodying all the principles herein outlined, but considerable difficulty would often be experienced in preparing any Balance Sheet whatever. The indications, however, are that enlightened public opinion is demanding a Balance Sheet, and within a few years its publication will be taken as a matter of course. Some day, possibly, it will be customary to find at its foot the certificate of Certified Public Accountants stating that the accounts of the City's "public utilities" and various funds have been audited and found correct.

For the present, however, much requires to be done in introducing those sound methods and principles of internal accountancy which render possible the presentation of correct Municipal Accounts, and in this work it is by no means too much to say that Public Accountants are in many cases rendering practical assistance which will prove to be of the greatest value to the country.

CHAIRMAN.—We will now hear a paper on "Revenues and Expenses as Distinguished from Receipts and Disbursements in Municipal Accounting." This paper has been prepared and will be read by F. A. Cleveland, Ph.D., of New York City.

Revenues and Expenses as Distinguished from Receipts and Disbursements in Municipal Accounting.

By FREDERICK A. CLEVELAND, Ph.D.,
Of Haskins & Sells, Certified Public Accountants.

The degree of elaboration here given to the two sets of ideas—revenues and expenses on the one hand and receipts and disbursements on the other—would seem without warrant before a Convention of Accountants were it not for the fact that the general practice in municipalities of the

United States is to confuse the two categories. Few American cities have a *complete system* of accounts. They have various books of original entry and departmental records; prominent among these are the accounts of the municipal treasury. The "cash account" is classified and subdivided and differentiated by bureaus and by departments and stated with a degree of ramification and complexity that has led many municipal officers and citizens to think that in this they have a comprehensive system of accounts. In most cases, it may be said, memoranda are kept of financial transactions; these might have been classified and correlated and reduced to a system of accounts, but they are not. Many cities have the data in the form of books or original entry; these again might be used as subsidiary and supporting records to a system of accounts.

Few of our municipal accounting officers have considered the need for accounts of *expenses* and *revenues* and of keeping records which will exhibit any relation of service rendered to expense incurred; nor have they endeavored to bring into alignment cost of service with current revenue provisions made for meeting expenses. Responsible officers are unable to obtain these results for their own guidance. The Bureau of the Census in its attempt to collect the municipal financial data with respect to the assets and liabilities and revenues and expenses of municipalities has not been able to obtain complete information from the books on any subject other than *cash receipts* and *cash disbursements*. The published reports of cities contain little else than exhibits of the flow of cash. Citizens and taxpayers are not able to learn from the published reports or from the accounting officers the facts necessary to judge as to the efficiency of administration in any of its departments.

WHAT CONSTITUTES A COMPLETE SYSTEM OF MUNICIPAL ACCOUNTS.

A system of municipal accounts is a method or means whereby all of the financial transactions and all of the data pertaining to the financial management of the city are (1) collected, (2) classified, and (3) finally co-ordinated around problems of municipal administration. The books and records are simply instruments used for accomplishing the ends above indicated. These three essentials of a system must, therefore, be represented in the books and in the records kept.

The books, vouchers and other records of *original entry* are kept for the purpose of *collecting* financial data. To be complete they must contain evidence of all transactions. But for this purpose no classification or final statement of account is necessary. In small businesses such data are usually kept in a day book in chronological order, because of the greater convenience in making current entries. So far as the purpose of the record is concerned, the only need for order or for having any system about these data is to know that all transactions have been recorded, and to aid the proprietor or management in locating the evidence of a transaction when such evidence is desired.

In small concerns there are separate books or records of *classification* called *journals*. To "journalize" means to classify. Usually, in large enterprises and in municipalities having complete systems, for reasons of economy the books of original entry or those used to *collect* the financial

data are themselves *classified*, thus forcing a classification of the data recorded at the time of making the original entry. In whatever form they are found, however, books of original entry and of classification are not books of financial account. They simply record isolated facts and register the judgment of the bookkeeper as to the account to which a particular isolated transaction belongs. These books and records for the *collection* and *classification* of data are necessary to a complete system of accounts, but they must be regarded as purely subsidiary and supporting documents.

The accounts themselves are found in the third class of books or records indicated, viz., *books of final co-ordination*. In municipalities they are of two kinds: (1) special and departmental ledgers, and (2) general ledgers. Completeness in the general ledgers (the *controlling accounts* themselves) is usually lacking in American municipalities. A city may have the vouchers, the memoranda and other forms of original entry of every transaction and financial relation, but these are left incomplete both in their classification and in their final co-ordination. In many instances, even the records of vouchers and the books or original evidence of transactions are also defective. The only transactions pertaining to which there has been a uniform demand for completeness in municipal accounting are those which have to do with the municipal treasury—the “cash” accounts of a city.

ESSENTIAL DIFFERENCE IN THE NATURE OF EXPENSES AND REVENUES AS DISTINGUISHED FROM RECEIPTS AND DISBURSEMENTS.

Corporate limitations and necessities on the one hand and corporate purposes on the other determine the classification of accounts. Corporate limitations and necessities inhere in the fact that a city is impotent to act or render service without *physical equipment* adapted to its ends. Its corporate purposes are principally in the public *service rendered* or to be rendered. Conformably to these controlling needs and conditions the accounts of a municipality (in any complete system) must be grouped around two general categories, viz., (1) those of proprietorship and (2) those pertaining to service or operation.

Accounts of proprietorship relate to ownership (or to assets acquired) and to financial obligations (or to liabilities incurred) in its proprietary or corporate capacity. *Accounts of service rendered* pertain to cost of service and to the provisions made for meeting this cost. *Expenses* and *revenues* are the terms used to characterize the two classes of controlling accounts which have reference to the two aspects of *municipal service*, as distinguished from controlling accounts representing relations of *proprietorship*—or *assets* and *liabilities*.

Accounts of receipts and *disbursements* have no reference to service rendered. They pertain to the other general category referred to as proprietary accounts. Receipts and disbursements are the names given to the debit and credit sides of the “cash” account. In accounts, “*revenues*” are not “*cash*.” The cash account shows the flow of current funds, and by a process of subtraction of “disbursements” from “receipts” may be shown the “balance” of current funds on hand at a given moment.

The *revenue* account records the total accruals from tax levies, fines,

fees, licenses, etc., during the period for which it is kept. A statement of revenues is a record of increments of wealth to be used for the current support of government; these increments are usually in the form of rights to receive money, the payment of which, however, may be deferred for months and even for years; receipts have reference to cash only. Revenues do not include accruals that are not intended for current support of government, such as assets obtained on account of the sale of bonds, temporary loans, or other credit contracts. Receipts, on the other hand, comprehend all cash received from whatever source. Revenues do not include transactions in the nature of sales of permanent properties and equipment; receipts include the amount of cash realized on every class of sale.

Revenues have to do with all transactions which are carried on for the purpose of obtaining a financial increase as a means of maintaining physical equipment and carrying on the operations of the municipality. The *revenue account* is not made up from the same original entries or vouchers as is the cash account. Tax revenues are drawn from the roll of tax levy; license revenues are made up from the license registers; revenues from fees are taken from dockets and fee books; revenues from municipal industries are drawn from the various industrial income accounts. Accounts of *revenue* are made up from records kept of increments of wealth (usually in the form of rights to receive) for current administrative purposes. The accounts of *cash receipts* are drawn from records kept of cash actually taken in; the fact that any amount of money was received on account of revenue accruals of previous years, or that the transaction pertained to the issue of bonds, makes it no less a cash receipt. The accounts of cash receipts are drawn from the records and statements made to the treasurer of licenses and fees paid, etc., and in municipal industries from cash books; or if the treasurer of the municipality is custodian of these funds, from statements of cash returned to him. For the purpose of determining revenues accrued no inquiry is made as to the amount of cash received on account of these accruals. For the purpose of determining receipts no thought may be had of revenue accruals. The two statements are absolutely separate and distinct categories of business, of accounts, and of finance.

The same general distinction may be made between accounts of *expense* and accounts of *disbursement*. A statement of expenses is a statement of the total amount of cost incurred in an enterprise, public or private, on account of current operations and maintenance. This statement is drawn from records of cost and has no reference whatever to payments in cash. "Cost" and "Cash paid" have very different meanings. The entire expense or cost may have been incurred for a period stated without a dollar having been paid out or disbursed. Again, during the same period, there may have been disbursements amounting to many times the expenses incurred. In a banking business, for example, a statement of expenses incurred for a given year would include summaries of salaries and wages, rents, insurance, supplies and stationery, taxes, interest on account, etc. For a given institution this may amount to ten thousand dollars. During the same period the same institution may have received and disbursed several hundred thousand dollars. A city having current expenses amounting

to a half million dollars per annum may, through various refunding processes, disburse a million and a half. A statement of revenues and expenses is a summary made up from all the accounts of a municipality which have to do with cost of operation and with the provisions made for meeting this cost. Such a statement and summary is based on vouchers and reports drawn from every department and bureau. Statements of receipts and disbursements, on the other hand, pertain to the municipal treasury alone. They are the summaries of transactions of the "receiving" and "paying" tellers of the municipality. The cash balance or "Cash on hand" is one of the items of municipal *assets*. The balance obtained from current revenue and expense accounts show the *surplus or deficit* for the fiscal period.

DIFFERENCE IN ADMINISTRATIVE PURPOSES OF THE TWO CLASSES OF ACCOUNTS.

Another line of demarkation is found in the different administrative purposes of these two classes of accounts. The purpose of assembling the financial data of a municipal undertaking around the two categories *expense* and *revenue* is to enable those interested in the public service to reach conclusions with respect to *economy of administration*. In these the taxpayer is financially interested as the contributor of funds for the support of current municipal activity; he would have economy as a means of reducing his own personal expenses. The citizen is interested in economy as the one for whose benefit the corporation was organized and is maintained; for him the greater the economy the greater the amount of service available. The officer of the public corporation is also interested in well-authenticated statements of revenues and expenses as a means of protection and as a guide to official judgment; such an assembling of data is necessary to the proper guidance of the affairs with which he is interested and for the direction of officers under him. A *detailed and comprehensive statement of expenses* is essential to a proper appreciation of cost to service rendered. A *comparative statement of expenses and revenues* serves two purposes of administrative economy: (1) Such an exhibit is necessary to determine whether adequate provision has been made to cover the costs of operation and maintenance in the past; and (2) a comparative statement of past expenses and revenues is the only safe guide to budgetary estimates and appropriations for the future.

Accounts of *receipts* and *disbursements*, on the other hand, serve quite a different administrative purpose. As before suggested, statements of receipts and disbursements are statements pertaining to the cash account. The cash account does not and cannot of itself represent any feature of administrative economy. The one side of a cash account shows the cash taken in, and the other side shows cash paid out. Money balance is an asset. Money taken in is not a revenue. Money paid out is not an expense. Money may be derived from "taxes receivable," from "accounts receivable," from "judgments receivable," from "sales of bonds" or other "credit contracts payable," or from the sale of buildings and equipment. Receipts and payments have relation to asset and liability accounts only. In making provision to meet current liabilities appropriations are made, and these appropriations may have separate accounts in the treasury de-

partment, or may be separately set up on "appropriation ledgers." But for purposes of final statements of asset and liability accounting, it is of administrative importance to know the amount of receipts and disbursements with respect to each fund, the purpose for which the funds have been expended, and the balance on hand.

It is of importance to the taxpayer, the citizen and the administrative officer, also, to know that those into whose hands the properties of the city are placed have been faithful to their trust. Aside from the fact that a department record is an integral part of a general system of accounts, and for this reason is necessary to an intelligent controlling summary of assets and liabilities, the officer entrusted with funds must be held to an account for his stewardship. One of the most important of departmental records reflecting relations of fidelity is that of the municipal treasury. Besides an asset statement of cash-balance, therefore, accounts of receipts and disbursements are important as a means of insuring fidelity of service and protecting the corporation against losses due to speculation and misappropriation. These two classes of administrative purposes, however, pertaining to accounts of receipts and disbursements, are quite separate and distinct from the purposes governing accounts of expenses and revenues.

THE REASON THAT THE "CASH-BOOK" ACCOUNTS ARE THE PRINCIPAL ONES KEPT IN AMERICAN MUNICIPALITIES.

The fact that the cash-book accounts are the principal ones kept by American cities is not without reason. The cash book is the first record developed in the evolution of accounting methods. In primitive enterprises, one not so large that every detail and transaction may not be performed by the proprietor himself, there may be an entire absence of record. Even when memoranda are kept no attempt is made to classify them and reduce them to a form of final statement. The first necessity for complete records comes with the introduction of employees into the business, charged with the custodianship of property which may readily be misappropriated. The most easily disposable property is cash.

The cash book of primitive accounts is used as a means of detecting infidelity among servants or employees. This at best could not be more than a special record of transactions. From the cash book as a beginning were added other books of asset and liability account. Based on the principle of fidelity of servants and of protection to the proprietor, there was finally developed a complete system of accounts. This complete system, however, was limited to accounts of assets and liabilities. In the evolution of business the first complete accounting system was the "single entry" system, which gave a complete record of financial transactions and grouped them around categories of proprietorship and fidelity.

The single entry system, however, was not found well adapted to the more modern development. From the primitive simplicity of a one-man tradesman's establishment to the complexity of modern corporate organization, in which an army of employees is brought under co-operative management, with an estate worth millions or even billions of dollars, there has been an evolution in accounting methods which not only would protect the proprietor against infidelity of his many servants and em-

ployees but would also give to the one in control such information as will enable him intelligently to direct the enterprise. The proprietor and the management must have a system that would insure *efficiency* as well. With departmental organization, with the division of service into companies and battalions, each company working under its captain, who is responsible to the head of a department, the heads of departments in turn being accountable to a chief executive—under such conditions and with such an organization, central administration requires that all of the data pertaining to operation be assembled, classified and finally stated in accounts such as would lay the foundation for the exercise of mature administrative discretion. A second and more advanced system of accounts was developed (known as the “double entry” system), in which the aim was not only to collect all of the financial data of a business and to assemble them around the “single” relation of proprietorship, but to distribute these in “double” relation, viz., (1) to accounts of assets and liabilities, and (2) to categories of income and expense, from which might be drawn summaries of profit and loss, financial distribution and surplus.

Even in private business this development has been comparatively recent, and in America accounting ideals remained undeveloped long after they had risen to a basis of scientific classification abroad. As has been pointed out before, this was largely due to the lateness of our national development. The fact that the cash book is still the central feature in the accounts of American cities can also be explained by their comparatively recent origin and by their failure to appreciate the necessity of a well-organized system of double entry accounts, not only as a means of insuring official fidelity, but also for purposes of municipal control and the attainment of higher administrative efficiency. The accounts of municipalities (even of many of our largest cities) are primitive. They are of the kind that would be found in a business amounting to a few thousand dollars per year, in which the cash book is the principal record kept.

It has been said that the smaller cities need nothing more than a statement of receipts and disbursements. This may be admitted on the same principle that a small merchant needs nothing more than a cash book or that a peanut vender needs no books at all. If the business of a town or village is so small that all of the administrative facts and relations may be held in mind both by officers and citizens, and the properties and liabilities are not important, then an accounting for “cash” may serve the need. The need for books of account is a relative one. The whole question is to determine at what period in the development of municipal enterprises a complete system (either “single” or “double” entry) is necessary to the intelligent direction of affairs.

“The business of this city is on a cash basis; we therefore need no accounts other than those of cash.” This is the answer usually given to a criticism that a particular municipality, large or small, has no accounts of revenue accrued and expenses incurred. While the answer is offered in good faith, and the one offering it may be strong in the belief, yet neither the premise nor the conclusion is true of an American city, and it may be doubted if it is true of any city. What is really meant is this: The city has borrowed money by hypothecation of its revenues or otherwise, to meet

current obligations. It is paying one class of creditors by means of cash obtained on credit from another class of creditors. There is not a city in the country whose revenue collections for a given year are not from six months to two years (in some cases even three or five years) behind the expenses incurred for the same period. In ordinary affairs business done by means of current borrowing is not considered a "strictly cash business." It is this situation that makes so difficult even a statistical approximation of current revenues and expenses from treasury transactions.

But even assuming that a city were so circumstanced that it were not necessary to borrow, assuming that its revenues were all paid on the very day that they are made payable, still the administrative need for operative accounts (showing relations of cost to provision made for meeting cost), would be just as necessary to efficient government. There is no form of enterprise whose revenues are more nearly on a cash basis than a railroad company. And there is no organization whose administrative officer watches more closely accounts of revenues (earnings) and expenses. Those railroads whose accounts do not give this information, or whose administration does not use the data so collected and classified as a basis for judgment, have either long since passed into history or are fast approaching that abyss which awaits the financial suicide. The operative head of a large transportation company seldom looks at the cash statement of receipts and disbursements. These are for the consideration of the financial department. The president of a railroad knows that administrative efficiency and administrative success must be the results of judgments made with respect to cost of operation and financial return for service performed. If these judgments be such as to leave a small margin of profit, or even if only that operative cost be met, the financial head of the organization will be able to provide the cash. Whether the cash is provided out of current revenue collections, or from bills and accounts receivable, accrued from past operations, or from temporary loans, he has little concern, except in so far as these financial transactions may increase expenses and make his operative problem the more difficult.

When the administrative heads of our municipal corporations may have accurate current accounts of *revenues* and *expenses*, and when their judgments may be made with respect to these, and they in turn shall be judged according to the efficiency of their own administration measured by standards of cost and service rendered we may look for the dawn of a new day. In the business world failure to adopt proper methods is marked by financial failure; as a result the administrative methods which survive are those which are efficient—those which are adapted to success. With a city, however, the fact that it cannot be permitted to go out of business so long as the community remains, makes the question of determining just when a modern method of accounting shall be applied wait on the exercise of political rather than business discretion. Municipal administrative methods cannot be improved through the operation of that principle of evolution known as the "survival of the fittest," except as this principle is applied to parties in power. Reform must come through a perception of

municipal needs and through a force in the form of popular demand that will break through the lethargy of custom and compel an abandonment of primitive business methods.

HOW A CLASSIFIED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS MAY CONTRIBUTE TO IMPROVED METHODS OF ACCOUNTING.

That any change is beneficial which will give to the administration and to the people a better understanding of municipal affairs will not be gainsaid. In the absence of a complete system of accounts the transactions of the treasury may be so classified that by process of statistical, compilation and mathematical reasoning a fair approximation as to results may be reached. It is for the reason that some light is better than none, that a published report of classified receipts and disbursements is to be welcomed. Not that the cash books can ever be made into a complete system of accounts—nor that statistics drawn from cash books can take their place. Not that a report of cash receipts and cash disbursements can ever give the administration the best basis for intelligent control, the details of whose business are not entirely under the direct scrutiny of its chief executive; nor that a statement made of cash receipts and cash disbursements can ever give to the public the information necessary to a proper estimate of the ability and economy of their agents. But whenever resort is had to a rearrangement of the cash account as a means of supplying statistical information of this kind, such action on the part of officers is to be considered as an attempt to get at results which before were unattainable, and to deduce from such accounts as are kept conclusions which are not found in the “footings”—viz., to get at *revenues* and *expenses*. Such an effort, while it may require a process of mathematical computation to enable those in control to get a better basis for administrative consideration, is in itself an admission of a need for a complete double entry system of accounts.

Attempt has been made to justify the classification of receipts and disbursements around categories of *revenues* and *expenses* on another ground, viz.—that the city's accounting officers must be led on step by step—that they cannot appreciate nor operate a complete system. While the introduction of a classification of receipts and disbursements in lieu of accounts of revenues and expenses may be justified as an immediate step demonstrating the limitations of such a practice, the relation which this bears to the evolution of accounting systems is not correctly perceived. Any attempt to restate the cash book to give results desired as a beginning in the installation of a complete double entry system of accounting starts the evolution at the wrong place. From the cash book a system of accounts can never be developed without abandoning the very methods which are here applied as a first step in the evolution, viz., the classification of *receipts* and *disbursements* around subjects of *revenue* and *expense*. As soon as accounts of revenue and expense are set up, there is no further use for the statistical method which before was applied to the cash account. After the introduction of a complete system of double entry accounting the only cash accounts that need be kept in the general ledgers and the only statistical statements of cash which need be made are those which relate to funds and appropriations.

The evolution which comes from, and which is to follow, a classified cash book must be regarded as a development in the *perception of a need* for a complete system of accounts—rather than a step in the direction of its installation. When this perception has grown to a demand that such a system be installed, the previously reconstructed cash accounts must be thrown out as a temporary encumbrance on the foundation to be used for the permanent structure. To restate the conclusion: In the absence of systems of account from which information may be had as to revenues, expenses, assets, liabilities, etc., the advantage of having the best information obtainable from books *in use* makes it desirable that the accounts kept be reduced to a form of statement which will admit of mathematical deductions as a means of approximating the conclusions desired. In such event, however, the report of a city may more properly be prepared by a statistician. The work of preparing such a report is not accounting, the method is not governed by accounting principles, and the report itself is not a publication of accounting results. But in doing this statistical work there is a distinct administrative advantage in adopting a form of statistical statement which will permit one city to compare administrative results with those of another.

Recognizing the indisposition on the part of municipalities to introduce complete systems of account, efforts have been made (notably by the National Municipal League and by the Bureau of the Census) to bring over the statistical statements and reports of receipts and disbursements to a form which would admit of the use of the cash book accounts (actually kept by cities) to the highest statistical administrative advantage. The statistical method of these two organizations is necessarily one which would give a uniform basis for comparison. The problems which each have had in mind have been primarily those of administrative economy. For this statistical purpose each has carefully worked out the categories of *revenues* and *expenses*. In applying these categories of revenues and expenses to the cash book as a basis for statistical statement and report of *receipts* and *disbursements*, they have recognized that the method adopted is an expedient—calling attention to the need which is not supplied in the accounts, and looking forward to a time when a system of municipal accounts may be installed which will furnish an accurate statement of *revenues* and *expenses* without the use of this statistical expedient. For the work of the League and of the Bureau of the Census nothing but the highest commendation is to be given. But the fact that they have employed a useful statistical expedient, in the absence of proper systems of account, is no reason why accountants should employ the same method in devising accounts intended to remove the necessity for use of this statistical method. The accounts should close with a statement of revenues and expenses direct, and give to the statistician an accurate summary of transactions representing administrative economy without resort to mathematical approximations drawn from the transactions of the treasury.

IMPORTANCE OF THE DISTINCTION.

For the last two decades American cities have been struggling with the problem of administration, and in their struggle have been brought face

to face with the need for a change in political organization which will remove the various checks and balances heretofore imposed as a means of insuring official integrity. It is found that integrity may be vouchsafed through devices by which responsibility may be fixed without impairing administrative efficiency. The demand of the time is for increased efficiency, and as a means to this end the tendency is to centralize executive control in the mayor. With the centralization of administrative responsibility, however, efficiency requires that a complete record of transactions be placed in the hands of the mayor. As a means of securing both *economy* and *fidelity*, for the enlightenment of officers and for the satisfaction of citizens and taxpayers, a complete *system* of accounts is demanded which shall be more than a record of receipts and disbursements of the treasury, together with such ancillary data as may be collected by means of statistical schedules and special reports. To devise systems of municipal accounts, and to install these for the use of officers of administration and for the instruction of citizens, is the work of the public accountant. This work cannot successfully be attempted, however, by ignoring the fundamental distinction between revenues and expenses on the one hand and receipts and disbursements on the other. Such a confusion bespeaks an utter disregard for the purposes of accounting, for the problems of administration around which accounts are to be classified and co-ordinated, and for those well-established principles of finance and administration with which accounting results and financial reports must be harmonized. It is in this situation that the importance of such a distinction is found and warrant for the discussion of elementary principles at a National Congress of Public Accountants.

CHAIRMAN.—The next paper on this interesting subject will be presented by Ernest Reckitt, C. P. A., of Chicago, whose topic is "Appropriations."

Appropriations in Respect to Municipal Accounting.

By ERNEST RECKITT, C. P. A.,

Of the Firm of Wilkinson, Reckitt, Williams & Co., Certified Public Accountants.

APPROPRIATIONS.

Business economy in a municipality demands that after obtaining an approximately accurate knowledge of the anticipated revenues from taxation and other sources applicable to what is generally designated as the city's general fund, a careful estimate of the expenses of each department and institution must be prepared and the apportionment of the city's revenues is then determined after a careful consideration of all of the above data.

It will therefore be conceded that the origin of all accurate appropriations lies in the union of:

- (i) Sufficiency of revenues from taxation, and
- (ii) Correct estimates of expenses.

The lack of one or both of the above requisites is responsible for much inefficient service to the public, for whilst the granting of an appropriation beyond the requirements of an institution will have the tendency to create extravagance, it is just as true that, in order to secure good service, it is necessary to have available funds to draw upon.

A scientific study or treatment of this subject, such as it deserves, with the object of placing it beyond the sphere of politics and forever lifting it outside of the realm of mere guesswork, would not attempt to separate the child "appropriations" from its parents, "taxation" and "estimates," neither would it divorce "taxation" from its mate "estimates," for each one in this group has a direct influence and effect upon the other. But as it is the work of the political economist to create laws governing taxation, so it is the especial province of the public accountant to deal with "appropriations," and for this latter reason we shall confine our discussion to this part of the subject only.

A peculiarity of the present manner in which the records in respect to appropriations are kept is that whilst the whole system of municipal accounting is subordinated to their consideration to the great detriment of the accounts which represent assets and liabilities and surplus of revenue over expenses, a corresponding laxity of method is found to exist in the manner in which these appropriation accounts are kept.

The causes which are chiefly responsible for this condition may be summarized as follows:

- (i) Indefinite and insufficient instructions and lax use of terms used in the charters or statutes regulating the duties of city and county officials.
- (ii) No appreciation of the distinction existing between the terms "revenues and expenses" and "receipts and disbursements."
- (iii) An entire absence of any intelligent distribution of expenses with the result that the full benefit of past experience cannot be secured in the preparation of estimates for future expenses.
- (iv) The employment of incompetent clerks.

Before taking up the consideration of the causes listed above, which contribute to the incomplete and often inaccurate condition of the appropriation accounts as found on the records of most municipalities, we will discuss the reasons why so much prominence is given to the appropriation accounts and the changes which should be made to put these accounts in their proper place, so that a balance sheet and statement of revenues and expenses can be prepared at any time from the balances as exhibited on the general ledgers.

As outlined in the papers already read this afternoon, accountancy in its initial stages dealt entirely with transactions affecting cash only, this asset being the most easily perverted into wrong channels.

As in the course of municipal evolution it became necessary to appor-

tion the anticipated receipts to various departments, it was natural that the scope of the cash book was enlarged so that it would show the cash balance of each appropriation. In this manner it can be readily seen how the term "appropriation fund" came to be applied, the word "fund" being used in its widest sense as applying to any sum of money held for a specific object; and as the only records kept were those of the treasurer, it can be stated with perhaps some degree of reason and from this point of view, that these unexpended balances were in the nature of funds.

With the creation of the office of comptroller, appointed to act as a safeguard against any misappropriations of funds by the treasurer it was only natural that the comptroller's first records were patterned after those kept by the treasurer, one being a duplicate of the other, and at first without consideration of anything else but as a record of the warrants issued on the treasurer, and to determine the amount of cash the treasurer should have on hand in each fund. Thus we find the comptroller not only adopting the term "fund" as applied to appropriations, but confining his bookkeeping to a mere record of cash receipts and disbursements distributed on the ledger amongst the various appropriations, and to-day we still find the general ledger of a municipality attempts to be first of all a record of funds and as an afterthought, by a remarkable system of double entry, some few accounts with assets and liabilities are condescendingly given a place, but they are made to feel that their presence is more or less of an intrusion. The writer remembers a laborious investigation to verify the outstanding bonded indebtedness of one of the largest cities in the United States, and on account of the fact that the payments made for the redemption of bonds were charged to the interest fund, together with all payments of interest coupons, it will readily be seen that it was more a matter of good fortune than otherwise that in most cases a corresponding entry was made by which their bond account was decreased and the "stock account" (which corresponded in some respects to a capital surplus account) increased. But even so, some entries were overlooked and the writer had the satisfaction of reporting the city's bonded indebtedness at \$5,000.00 less than it was stated on its books.

When conditions such as described can exist, it does not require much penetration to appreciate the fact that no intelligent system of municipal accounting can be based upon records imitated from those which are suitable only for a city treasurer. It is the duty of the comptroller *in the first place* (if it be possible to consider one part of his records as more important than another) to so arrange his methods of bookkeeping that they shall show the assets and liabilities and revenues and expenses, and *secondly* to provide for an accurate system of recording the unexpended balances of all appropriations.

Thus to reform present methods it is necessary to completely change the old order of things, for it is impossible to combine a system which places accounts with appropriations as its foundation with any attempt to record in proper manner the entries affecting the asset and liability accounts. By a reversal of these conditions, not only can a statement of the

city's assets and liabilities and revenues and expenses be prepared from the balances contained in the general ledger, but the condition of each appropriation can be arrived at.

Before entering upon a description of the methods to be employed to give these results, a few words on the subject as to whether an appropriation is a fund or not may assist in a proper appreciation of the manner in which it will be proposed to record same on the comptroller's books of account.

I have stated earlier in this paper that from the standpoint of the treasurer there may be some reason for his regarding the unexpended balance of an appropriation as a fund, for whilst he does not keep in separate bank accounts the balances of each appropriation, he exceeds his authority if, perchance, he pays a warrant drawn on one appropriation out of cash belonging to another.

It will be conceded that the status of an appropriation differs totally from that of a trust fund, sinking fund, interest fund or city fund, these latter being creations of the State law, and the city council having no power to transfer the balances of one such fund to that of another. On the other hand, the distribution for specific purposes of the revenues of what we may term the city's general fund, and which are termed appropriations, is determined upon by the city council, in addition to which the laws of many States allow the same body by a majority vote to amend such distribution as may be deemed advisable.

I therefore contend that the term "fund" as applied to appropriations is a misnomer, and its use in the past has been unfortunate, as it has had the tendency to place the accounts with appropriations on the same footing as that of trust funds, sinking funds, etc., which are bona fide funds.

Having established the distinction between an appropriation account and a fund, and realizing that there is no special sanctity about an appropriation that would necessitate the whole system of accounts to be subordinated thereto, we may pass on to a consideration of the place that it should occupy in any broad scheme of municipal accounting.

The scope of this paper will not admit of any elaborate description of the details by which appropriation accounts should be kept, but the essentials may be stated to be as follows:

1. That no expenditure involving an addition to the city's permanent assets, which is to be met by payment out of the general fund, should be undertaken without an especial appropriation being made therefor. Thus it is a mistake to make an especial appropriation for a fire department to cover not only the operating expenses but the erection of buildings and purchase of fire engines. An appropriation must be made for each classification of additions to permanent assets, and the necessity for this will develop in the following paragraphs.

2. No appropriation account should be kept on the general ledger, but a separate account should be kept to record the expenditures of each appropriation. The effect of this plan will be that until the close of the fiscal year the balance of the general fund will represent the net revenues appli-

cable to same and the ledger balances will in all cases represent either assets or liabilities, revenues or expenses, in a similar manner to the ledger balances of any mercantile or commercial concern.

3. An appropriation ledger and journal should be kept and an account with each appropriation opened, each account to be credited with its respective appropriation and charged each month with the total of the expenditures applicable to same, such charge being the total of the month's entries in the corresponding account in the general ledger.

4. The appropriation ledger in order to balance within itself should carry a "general appropriation" account, which would be charged with the total appropriations and credited by the total monthly expenses.

In order to verify that the appropriation ledger is in accord with the general ledger, it will be necessary to deduct the total of all the expense accounts in the general ledger from the balance of the general fund account. The balance thus arrived at would, if no errors had been made in the clerical work, equal the balances in the aggregate as contained in appropriation record.

This method of proof is based upon the reasonable assumption that the total revenues credited to the general fund account had been apportioned, any balance left in the general fund being carried to the contingent fund, this latter being treated as an appropriation in the appropriation ledger.

5. At the close of the fiscal year the expenditure accounts on the general ledger representing additions to the permanent assets should be transferred to the parent accounts in the general ledger, so as to arrive at the total investment up to that date. Such a transfer from an account kept under that part of the ledger dealing with cash or operating assets to that part of the ledger dealing with the city's investment accounts will also necessitate a corresponding credit to the capital surplus and a charge to the general fund.

6. The ruling of the appropriation ledger should be so arranged as to also record the total of all warrants issued on the treasurer applicable to each appropriation, the plan as outlined in the foregoing paragraphs being based on the assumption that every bill immediately it has been duly approved shall be entered on the records and charged against its appropriation irrespective of the time of payment.

By the adoption of these columns in the appropriation ledger, one for expenditures and the other for warrants on the treasurer, a connecting link is established between the records as kept by the comptroller with those kept by the treasurer, which will be found of value in many ways.

In addition to the foregoing columns, provision should be made for the suitable recording of all contracts and requisitions chargeable against appropriations.

Having briefly touched upon some of the essential features necessary to reorganize the prevalent methods affecting this subject, we come to a consideration of the four causes enumerated earlier in this paper which militate not only against any system of recording appropriations, but also against many other branches of municipal accounting.

(i.) Indefinite and insufficient instructions and lax use of terms used

in the charters or statutes regulating the duties of city and county officials.

The writer was recently called upon to refer to the law governing the duties of a county comptroller in the State of Illinois, and whilst this particular law may differ from that of other States, it is probable that it may be taken as a general type of all.

Thus, as an instance of laxity in expression, we find that it is the duty of the comptroller to keep an accurate record of "receipts and expenditures," leaving it extremely vague as to whether it intended to say "receipts and disbursements" or "revenues and expenses."

As an example of insufficient regulations the law allows a comptroller to so keep his books that no liabilities are recorded except at the close of the fiscal year. The laws as they now stand may have been sufficient for the requirements of an agricultural community, but are certainly unfitted for present needs, and it would appear to be the especial duty of the public accountant to assist our lawmakers in a clearer understanding of the terms and regulations which should be incorporated into these statutes.

(ii.) No appreciation of the distinction existing between the terms "revenues and expenses" and "receipts and disbursements."

This subject has been already amply discussed in other papers read, so no further comment is necessary.

(iii.) An entire absence of any intelligent distribution of expenditures.

It is not sufficient that the total of the expenditures against each appropriation should be known. In order to prepare estimates for future appropriations, a complete classification of the expenditures of each appropriation should be readily obtainable, for the conditions of one year may not be applicable to those of the next year. The general ledger should not be burdened with the details of this analysis, but independent records kept for this purpose, the accuracy of which would be verified as to totals through the controlling accounts in the general ledger.

(iv.) The employment of incompetent clerks.

The best systems devised by the most capable accountants can be brought to naught by incompetent clerks, and no lasting improvement in municipal accounting can be effected without a corresponding improvement in the intelligence and morale of the men who have the duty of carrying out the methods inaugurated. It is therefore a misfortune that the prospects offered by a clerkship in a municipal government are not equal to those offered in other lines of work, hence these positions are not usually attractive to bright and energetic young men.

In a naval squadron ordered to act as a unit, it is the slowest vessel that sets the pace, and in like manner, the public accountant's capabilities are limited by the intelligence of those who have to work under his instructions. Our profession therefore demands a combined effort not only to improve the present methods of municipal accounting, but by whatever means we have in our power, to encourage and foster higher ideals and greater intelligence amongst those upon whom we depend for the results. Otherwise, our labor will have been in vain.

CHAIRMAN.—The Hon. James Y. Player, Comptroller of the City of St. Louis, was to have opened the discussion on the papers

that have been read. We are very sorry, I am sure, to learn that Mr. Player is ill and therefore unable to be present. We have, however, with us this afternoon the Comptroller of another city, whom we should like to hear from.

I will therefore ask Mr. Betz, Comptroller of the City of St. Paul, if he will open the discussion.

HON. LOUIS BETZ (Comptroller of the City of Saint Paul).—Mr. Chairman and Gentlemen of the Congress: Expecting that Mr. James Y. Player, Comptroller of St. Louis would lead in the discussion of the various papers read on Municipal accounting, I am not fully prepared to enter the field. The papers that have been read this afternoon, were certainly very interesting to me, and they contained many valuable suggestions, some of which I will take advantage of in my official capacity.

Uniform Municipal accounting is a thing that is almost impossible, as every city of our fair land has a different Charter, and books must be kept according to such Charter, and I might add that if the same Charter were given to forty different accountants we would be liable to have forty different systems, although the final result would be the same, and then again the sources of revenue and the expenditures in each City are so different, that an expenditure charged to one department in a certain City may in another be segregated and charged to various departments so that it will be first necessary to have uniform laws in all cities before we can have uniform accounting. All cities should work at least towards one goal, and that is that only one board or body should exist clothed with the power of taxation, and every cent expended should pass through the Comptroller's office, thereby making it possible to ascertain the exact financial standing of the City at any time. I would further suggest that each City of 30,000 inhabitants or over, should include in its official force a city statistician, who will at the same time be a government statistician appointed by the federal government under civil service rules, with his salary paid partly by the government and partly by the Municipality. The duty of this officer or clerk should be to keep strict inventory of all personal and real property of the City, the city statistics for the use of the government, on such blanks and books as may be prepared by the census department. This would give us a nucleus around which uniform accounting could be gradually built up and ultimately attained, it would at least help to bring about one thing which is possible, and that is

uniform Comptrollers' reports as to the financial standing of a city. The Census Bureau, instead of sending out a lot of special agents, many months after the first of the year to gather in the statistics of the various cities, for the preceding year, would receive the reports from the city statistician soon after the close of the year, and thereby be enabled to publish them at a time when they would be fresh and make interesting reading for every City official, and be a valuable help in making up budgets, as the expense items of the different cities for the previous year could be compared, and I believe much money could be saved in many of the Municipalities. As it is now we receive them from fifteen to eighteen months after the close of the year, and under the rapidly changing conditions in our country they are remote history, and not so valuable for comparison, but if we had them two months after the close of the year they would be highly interesting. This scheme is somewhat visionary and whether it is feasible or not I do not know.

In regard to balance sheets and double entry bookkeeping, I am glad to state that in St. Paul we have what I believe an excellent system. Daily balance sheets representing every account on the ledger are made out in the Comptroller's office and sent to the Treasurer, who must sign them as being correct; they are then filed and at the end of the year they are bound and form part of the permanent records.

In thanking you for your attention, I wish to express the hope that your deliberations at this Congress will bear fruit and be of lasting benefit, and that you will have many more Congresses in the future.

CHAIRMAN.—The Chair understands that Mr. L. G. Powers, Chief Statistician of the Census Bureau of the United States Government, is present, and we should like very much to hear from him.

HON. L. G. POWERS, of Washington, D. C.—Mr. Chairman, and Gentlemen of the Congress: I will take only a few minutes of your time. I thank you for the very kind references that have been made to our work, by the various speakers this afternoon. I think that they have stated very clearly some of the difficulties of our work wherein we are trying to present the best results possible with the conditions under which we labor—conditions far from ideal, and hence not productive of ideal results.

I will say further, with reference to the remark of Mr. Betz,

that next year we expect to have the publication ready for the printer at the end of three months after the completion of the field work, instead of as now, after eighteen months. (Applause.) That, however, will not give you all you desire. The difficulty arises from the following facts: There is at least six months difference in the date of closing of the fiscal year of cities, and we cannot begin the field work in any year until the last of these cities closes its books. Further, some cities do not strike a balance of their books for six months after their fiscal year closes, and their books are not in shape so that we can tell absolutely what they are until six months after that year closes. Under the present circumstances, there must be a year's difference between the closing of the year of some cities and the time that we can present any possible analysis or comparison of the whole.

If anything could be done, such as Mr. Betz suggested, it would undoubtedly aid us very much. The Comptroller of Chicago has advocated something of the same sort, and has asked the aid of the Bureau to secure legislation along the lines suggested. Whether such legislation can be secured, I know not. I will, however, say this: It is for the accountants rather than for the Census to give the final touch to improved municipal accounting. We can only analyze and give the facts shown on the municipal books. We must rely upon the accountants of the country for the pressure on cities to secure good systems of accounting, out of which alone can come the class of statistics that you desire from the federal government.

I thank you, gentlemen, for the courtesies that you have extended. Many of you have been of great assistance to us in our work. We cannot, in the Census, differ from you. We must fall back upon you for all trustworthy methods of accounting. We cannot make any system. We can simply follow in your footsteps.

In this connection, I will say that if any gentleman present has not been in communication with the office in Washington, and he would like, I will mail to him the statistics of cities, when issued in about three months. This publication will contain the statistics of 160 cities with a population of over 25,000 inhabitants. It will give the general basis of our classification, our definitions, and the details of the statistics of these cities. It will make a quarto volume of about one hundred pages, giving greater details by about ten times, than any previous publication.

We shall be pleased to have any criticism or suggestion with reference thereto. It is only by suggestion that we can be improved, and it is further by keeping in touch with this body of accountants that progress in municipal accounting can be continued. (Applause.)

CHAIRMAN.—The subject is now open for general discussion. Are there any remarks?

MR. DICKINSON.—I wish to offer a vote of thanks to the gentlemen who have prepared these papers. I wish we had more time to listen to them and more people to discuss them.

(Motion seconded, put to vote and carried.)

MR. POWERS.—Mr. Chairman: May I just say one word further? The Census Bureau has under consideration at the present time the idea of calling, in connection with the Advisory Committee to which Mr. Chase alluded in his paper, a second conference relating to Municipal Accounting, in the month of December of this current year. If any of you can be present, we should be pleased to send to you when that is called, a most cordial invitation, and if any of you desire the publication relating to the Conference, we shall be pleased to forward the same to you. You may either give me your address at the present time, or write me at any future time.

CHAIRMAN.—The Chair has been informed that owing to the lateness of the hour and an appointment Mr. Hyde has had to meet, he will not be able to present his promised address this afternoon. It will be presented at the first opportunity later in the proceedings.

There are one or two announcements that I should like to make: one is that there is to be a change in the programme. Tomorrow afternoon Mr. Montgomery's paper will be read following Mr. Pixley's, and Mr. Dickinson's paper will be presented on Wednesday in place of Mr. Montgomery's. It is a simple transposition of these two papers, as I understand it.

SECRETARY.—I will take this opportunity of extending to all of the members of the Congress and all of our invited guests, on behalf of the Federation of Societies of Public Accountants, a most cordial invitation to Luncheon at "The Tyrolean Alps" on Wednesday at half-past one or two o'clock. We have had placed at our disposal a private hall and certain other attractions which will develop at the time. After our adjournment from that lunch we

propose to go over in a body to the Philippine Exhibition, where we shall have special guides placed at our disposal to show us the most interesting parts of it.

CHAIRMAN.—The Congress will now stand adjourned to meet to-morrow morning at 10 o'clock.

EVENING RECEPTION.

In the evening a Reception was held at the Hamilton Hotel beginning at 9 o'clock, which was attended by more than one hundred members of the Congress and guests. The Hotel parlors being too small the large dining hall was used and was tastefully decorated with palms, ferns, trees in tubs and foliage plants together with a liberal use of cut flowers. Messrs. Bollman Bros., of Saint Louis, were kind enough to loan to the Congress for the evening, a Steinway grand piano.

The Hon. Rolla Wells, Mayor of the City of St. Louis, received the members of the Congress, their guests and friends, assisted by Mr. Joseph Edmund Sterrett of Philadelphia and Mrs. Sterrett, Mr. Arthur Lowes Dickinson of New York and Mrs. Dickinson and Mrs. George Wilkinson of Plainfield, N. J. The members and guests were introduced to the Mayor by Secretary Wilkinson.

Senor Pedro Luis Ogazon, the celebrated Mexican pianist, played the following pianoforte selections which delighted the auditors.

- I. (a) *Vals poetico*.....Villanueva,
 (b) *Gnomen Tanz*.....Grieg
- II. *Polonaise heroique, op. 53*.....Chopin

Madame Franklyn Knight, a St. Louis artiste with a rich contralto voice, sang several pleasing numbers, which were very well received and much enjoyed.

<i>Rainbows</i>	<i>Parke</i>
<i>Absence</i>	<i>Metcalfe</i>
<i>Shadows</i>	<i>Barn</i>
<i>Pitta song</i>	<i>Hoeck</i>
<i>Good Night Little Girl</i>	<i>Marcey</i>

Professor William Weil conducted his orchestra of eight stringed instruments and furnished music throughout the evening.

Prof. Weil's orchestra is picked from the members of his justly celebrated band, which plays during the day time on the World's Fair Grounds.

Among the guests attending the Reception should be mentioned Francis William Pixley of London, James Martin of London and Mrs. Martin, John B. Niven of New York, John Hyde of Montreal and Mrs. Hyde, F. H. Macpherson of Windsor and Mrs. Macpherson, W. T. Kernahan of Toronto and Miss Kernahan, John W. Ross and his brother A. F. C. Ross of Montreal, Hon. L. G. Powers of Washington, D. C., A. F. Mitchell of Montreal, Henry Barber of Toronto, and Louis Betz of St. Paul.

Refreshments were served at eleven o'clock.

The Reception was not over until after midnight. The guests left the room reluctantly long after the orchestra had played "God Save the King," "The Star Spangled Banner," "America" and several other patriotic airs, also "Home, Sweet Home," none of which had the desired effect of sending the guests home. Everybody expressed the feeling that they had spent a most enjoyable evening and that the Congress was a great success.

ANDREW A. GILLIES, F.C.A.

It will be learned with regret that Mr. Andrew A. Gillies, F.C.A., ex-President of the Manchester Society of Chartered Accountants, who was formally delegated by the Manchester Society to represent them at the Congress of Accountants, was prevented from being present by a sudden and dangerous attack of illness which seized him while in Wyoming on his way to St. Louis to attend the Congress. Mr. Gillies was removed from the train under a physician's care on Friday, September 23d, and put to bed in an hotel at Sheridan, Wyoming, where he was detained for more than a week. A telegram explaining the circumstances, addressed to "The Secretary of the Congress of Accountants, Education Hall, Exposition, St. Louis," was dispatched from Sheridan on Monday, but was never delivered to the Secretary. A letter similarly addressed was received long after the Congress was over. Mr. Gillies writes from Manchester expressing his great regret and sad disappointment that he could not be present at the Congress after having travelled so far and his sense of deprivation caused by the mishap that befell him.

Second Day.

TUESDAY, SEPTEMBER 27th, 1904.

MORNING SESSION.

The Congress was called to order at 11 a. m., J. E. Sterrett, C.P.A. in the Chair.

CHAIRMAN.—The Congress will please come to order. I have several telegrams, received since our session of yesterday, which I should like to read.

J. E. Sterrett, Chairman, St. Louis:

"To the Congress of Accountants in session at St. Louis greetings, and best wishes. The American Association of Public Accountants is in hearty sympathy with every movement having for its object the elevating and the dignifying of the Profession of Accountancy.—(Signed) J. R. LOOMIS, President of the American Association of Public Accountants."

"George Wilkinson, Secy., Congress of Accountants, St. Louis:

"Last moment sorry cannot come. Send heartiest greetings for success.—CHARLES ROWETT, President of the Incorporated Kansas Association of Public Accountants."

"Geo. Wilkinson, St. Louis, Mo.:

"Regret unavoidable absence from Congress. Best wishes for success.—GEORGE SHEDDEN, Secretary of the Washington Association of Certified Public Accountants."

"George Wilkinson, Secy. Congress of Accountants:

"The California Society of Certified Public Accountants send congratulations, greetings and best wishes to the Congress.—LESTER HERRICK, Sec'y of the California Society of Certified Public Accountants."

SECRETARY.—Through the courtesy of Mr. George O. May, a member of the Committee on Entertainment, we are able to hold our banquet this evening at the Mercantile Club. In order to do that it will be absolutely necessary that we advise the Manager of the Club how many people are coming. I would be very much

obliged if those gentlemen who are going to the banquet this evening, if they have not secured tickets, would be kind enough to see our Treasurer now.

CHAIRMAN.—We were all very sorry yesterday afternoon that the lateness of the hour required adjournment before the completion of our programme. We had several pleasant addresses yesterday morning by our friends from Canada, and I know we would all be glad to hear further from them. As it was impossible to do this yesterday we have arranged to take up our programme this morning where it was then left off. The President of the Dominion Association of Chartered Accountants, Mr. John Hyde, will now address the Congress.

MR. HYDE.—Mr. President and Gentlemen: When your Secretary wrote me about ten days ago asking me to address you upon the subject of Accountants' Associations, and the position of Public Accountants in Canada, I felt that while the day was rather late, the least I could do would be to give you an address covering the ground as far as possible in the short time at my disposal.

As to the practice of accountancy in Canada, that is in the older Provinces of Quebec and Ontario, we can trace back firms in the Cities of Montreal and Toronto who had their origin as far back as sixty years; so that we may say that public accounting started in Canada as a profession about sixty years ago. The duties of Accountants at that time, of course, were not very onerous, and therefore, in addition to fulfilling the duties of the profession, they also did what would be called "side business," acting as agents for Insurance Companies and real estate brokers, etc. As the profession commenced to increase,—and no doubt in the United States you have experienced the same thing—and it was ascertained that a certain number of the Accountants were accumulating a good practice, and occupying a good position, there were a considerable number of people that thought it would be a very good thing to start in as Accountants, with the natural result that as you walked through the Streets you would find "John Jones, Accountant," "Tom Smith, Accountant"; but in the great majority of cases if you went in to see these people and ask them questions to ascertain what their qualifications were, you would find out that Mr. John Jones had worked for ten years in a country store and had kept a Day Book in which he had

religiously debited all the pounds of tea that had been sold, and credited so many pounds of sugar paid on account.

Now this resulted in the professional Accountants coming to the conclusion that, in order to protect themselves, it would be necessary to form some sort of an Association whereby they could unite and weed out the unqualified members. In the year 1879 the leading Accountants in the City of Montreal had several meetings to consider the question of forming an Association. They in Montreal at that time felt the same difficulty facing them that you feel in your different Legislatures regarding the C. P. A. movement. The objection was made that it was introducing "class legislation" to grant an act of Incorporation to any body which virtually had, as it were, personal gain as its object. But the character of the Accountants of the City of Montreal at that time, having among their number such men as the late James Court, Thomas Darling, P. S. Ross, (the father of the twin brothers with us to-day,) and a number of other men occupying prominent positions in the City of Montreal, was so high that when they went to the Legislature an act of Incorporation was granted to the Association of Accountants in Montreal. This Charter was granted the 24th of July, 1880.

Just at the time when the application was being made to our Legislature for this act of Incorporation, the Toronto Accountants, who had a voluntary Association, through one of their members, a Mr. Robbins, wrote to the Montreal parties and suggested that instead of having a separate Association, they should have a Dominion Association, so as to take in the practicing Accountants of the Dominion of Canada. The Montreal Accountants at that time, of course, it being the first application of the kind made to the Legislature, felt rather diffident, and they decided that the time was not opportune to enter into the greater work of the Dominion Association. As they said, they looked upon their application, as it were, as an experiment. Under this bill, which was granted by the Provincial Legislature, it was declared that no party within the Province of Quebec should have the right to use the title of Chartered Accountant unless he was a member of the Montreal Association. Now the result of having that special privilege granted to the members of the Montreal Association has been to keep a high standard in the profession in Montreal because the originators of this Association were jealous of their rights and privileges. They took care that their successors were

properly qualified before they would allow them in, and we to-day who are the younger generation, and in control of the affairs of that Association, still try to maintain the same high standard. We are very careful: not only do we require that an applicant for membership to our Montreal Association shall have been a practicing public Accountant for at least one year before entering, but we also require, in addition to what would be the theoretical part of the work of the Accountant, good evidence of the practical part, and above all we look at the character of the applicants because unless you do that, if any member of the Association is found guilty of misconduct or of not performing his duties as they should be performed, it is a reflection upon the whole Association.

In 1896, nearly twenty years afterwards, we felt that the time had come when we should have additional privileges granted to us. Under the laws of Canada, which of course are similar to the laws of England, and I presume, the United States, Solicitors and Attorneys have conferred upon them the right to refuse to disclose any communication made to them by a client. We felt that the position which we occupied towards the commercial men of Canada was such that we should have conferred upon us that same right, because when a man comes to us to consult us regarding his affairs they are usually in a tangled state, for the people very rarely come voluntarily to an Accountant. They look upon him as a sort of a Doctor, and think that it is time enough to go to see the Accountant when they are sick and about dying; then they go to him and want him to diagnose what the disease is and to furnish the necessary remedies. Now if a client is not allowed to disclose everything relating to his business it very often creates a great deal of trouble to the Accountant who has to go to work to find it out. So we felt if the clients had the right to go to their Accountants and unbosom themselves thoroughly, knowing that no Court could compel the Accountant to tell what had been disclosed to him in confidence by his client, and further knowing that even if he should fall out with his Accountant the Accountant would be prohibited from stepping into the witness box and telling what had been told to him, the confidence between the Accountant and the client would be increased more than it could otherwise be.

We also felt that the time had come when we should have established the right to make a minimum tariff to cover our services as Accountants.

When we went to the Legislature with our application we met with considerable difficulty; we met with objection. The representative of the Government, the Attorney General, who was on the Private Bills Committee, which was the Committee we came before—he was a lawyer himself and of course very broad-minded, as they all are, but very keen to protect their privileges—he said, “Oh, we could never consent to conferring upon you any such rights as that; that is altogether out of the question; there are too many of those rights already and we will not increase the number.” So finding ourselves up against the Government we had to retire as gracefully as possible, and we therefore compromised with the Attorney General. We said, “Attorney General, we will withdraw that part concerning privileged communications, but in return for withdrawing that, we want you to give us the necessary power to make a minimum tariff.” The reason that we wanted the tariff is this: that under our system before we had a tariff it was necessary if we had trouble with a client to sue him. You had then to produce your fellow Accountants to prove as to the value of the services, etc., and then you were dependent upon the judgment of the Judge who might try the case. Now in our system very often we have brought in to help out, on account of the congestion of the City Courts, Judges from the Country, and of course you understand that Country Judges have great ideas of the value of the services of a professional gentleman, and to think that a common, every-day Accountant should render a bill for \$20 or \$25 a day was robbery, which of course a Judge could never countenance, because he is sworn to protect the public against extortion. (Laughter.) Now we felt that a Judge such as that was not a proper man to value our services, so we asked the power to fix a minimum tariff. I may frankly tell you that we were, as it were, turned down by the Private Bills Committee. They said they could not confer that upon us; they must leave that in the hands of the Judges, who were fair-minded men who could always value services. But we didn’t abide by the finding of that Committee; we carried it on, and I had a private interview with the Attorney General and discussed the matter with him and went into it and showed him the justice of our request and he finally said, “You want the bill to go through?” I said, “Yes; that is what I am here for. There are four of us here and we came down to see this bill through.” He said, “All right; we will send the word around

amongst the boys." Our bill went up; the report of the Committee went up, and on presentation the usual motion to adopt was made, an amendment was offered that the bill be referred to the Committee of the House to put in what we wanted; it was carried and went through, so that since 1896 the Montreal Association, in addition to having the privilege conferred upon them of having the absolute right to use the title "Chartered Accountant" in the Province of Quebec, have also the right to the minimum tariff which has been prepared and approved by the Lieutenant Governor and Council. So all we have to do to-day, if we have any trouble with a client at all, is simply go to Court and say, "We have been so many days and so many hours; there is the tariff; I am a member of the Association." And it must go.

The reason I give you all these facts is simply this: to show you that you must not be discouraged if you get thrown down occasionally by the Legislature. Keep at them. We are keeping at the Legislature, and I hope before long we are going to get the privilege, the same as the Solicitors, to have confidential communications with our clients. The Montreal Association, as you see, has been about twenty-five years in existence as an Incorporated Association, and is restricted absolutely to practicing accountants. We will not admit a man unless his profession is that of a public practicing Accountant, and that must be his principal profession. If he enters into any business which is not properly in accord with the accountancy business he must give up his membership in the Association.

The next Association in Canada to obtain an act of incorporation was the Ontario Association of Chartered Accountants. They had been carrying on their affairs as a voluntary Association for some years and on the first of February, 1883, they obtained their Act of Incorporation from the Ontario Government. They have no special rights or privileges granted to them in their Charter, and their Association is not restricted to practicing Accountants. Any member who qualifies under their examination has the right to membership in the Association as an Associate, and after a certain number of years as an Associate, upon passing another examination, he has the right to become a Fellow of the Association. They have, also, in connection with that Association, affiliated, as it were, a Students' Branch. So that really to a great extent, the Ontario Association looks after what we would call the educational and theoretical part. Of course they

have in connection with that Association quite a number of practicing Accountants, but it is not restricted to them. That is the difference between the Ontario and the Montreal Associations. But there is one thing that applies to both. It is this: that our Governments recognize that the proper parties to do Government work are members of these Associations. The Municipalities also are recognizing that it is necessary to have public Accountants to attend to their work, and the fact of a party being a member of these Associations goes a great way with these Municipalities. I may also say that the Shareholders of public Corporations are now recognizing that in order to have their rights protected properly they must have their accounts examined by a professional Accountant; that the day has gone past when Mr. John Robinson, because he happens to be a relative of the President or some of the Directors, is a fit and proper person to sign the statement and say that he has audited the accounts and found them in good order and condition and that everything is all right. That day is fast passing away, and one of the great reasons for that is that the work done by the professional Accountants has been of such a high standard that the people are recognizing it.

We have also in two other Provinces Associations who have obtained Charters. The Nova Scotia Association obtained a Charter on the 30th of March, 1900, and the Manitoba Association obtained a Charter on the 15th of May, 1902. So far the principal accountancy work done within these Provinces has been done by the members of the Associations in the older Provinces, because nearly all the public Companies carrying on business in these other Provinces have that capital furnished by the Capitalists of the Provinces of Ontario and Quebec; but they have got the nucleus there for the formation of what will eventually be good strong bodies. They have no special rights conferred upon them. They are in the same position as the Ontario Association, and their acts of Incorporation are virtually modeled upon that of the Ontario Association.

In 1900 and 1901 a number of the practicing Accountants of Toronto and Montreal had correspondence and conferences with the view of adopting some means whereby the different Accountants throughout the Provinces of Canada could be brought together in some way in a common Association. As a result of these exchanges of thought an official conference was held between representatives of the Ontario Association and the Quebec

Association, and also representatives of Accountants who were not members of either Association. After discussing the matter it was thought to be in the interest of the profession that we should obtain a Dominion Charter. Application was made to the Dominion Government on the 8th of November, 1902, and the Dominion Government granted an Act of Incorporation to the Dominion Accountants' Association.

This Association is principally composed of practicing Accountants, and we have members throughout all the Provinces of Canada. Now this Association has enabled us to get into closer touch with the members of the profession throughout Canada. It has enabled us to exchange ideas and to understand better than we ever did before the difficulties which Accountants have to face in their different Provinces; it has been the means of strengthening the relationship between practicing Accountants, and I hope and trust that ere long this Dominion Association will embrace all the practicing Accountants in the Dominion of Canada.

There is no intention that the Dominion Association shall in any way displace the local Associations, for we realize that they have a work to do: their work is to look after the theoretical part and to push on the members theoretically qualified into the practicing field, and after they have had their two years' practice as Professional Accountants, then the Dominion Association is prepared to take them at that point and to apply the standard to them as to their knowledge of practical accountancy, and if we find them to have attained the proper standard, that they have the certificate from the local Associations as to theoretical standing, and that their character is all right, then we welcome them into the Dominion Association, and we give them its degree. We also feel that by having a central body such as the Dominion Association is, that we can bring more pressure to bear upon the different Legislatures. The time is rapidly coming when the Governments must insist upon some means of auditing or examining into the affairs of all public Corporations seeking incorporation from the different Provincial Legislatures or from the Dominion Government—not only that they shall have to report after they have started to work, but that before they shall have conferred upon them an Act of Incorporation or become incorporated by Letters Patent, that the bona fides of the promoters or Incorporators should be certified to by a public Accountant. Now that is what we are aiming at at the present time: that in the

Provinces and in the Dominion as well, some legislation shall be granted to protect the public investor, because unfortunately the average investors—especially those who are investing, as it were, in a small way—have no proper means of finding out whether the project is bona fide or not, and we think that it is the duty of our Legislatures to protect these people, and of course we naturally are the proper judges to know who should do this. We are going to show the Legislatures that we are the proper judges. We say it now, and we will continue saying it; we believe it and we will make the Legislatures believe it, and when we get them to believe it, we will get the legislation.

Now that is what seems to me to be the great aim and object of all Accountants: to do their work in such a way that the public will appreciate it; that the public will recognize the work of the Accountants as such as to give them confidence in anything which an Accountant will certify to. When you get the public to believe that, then your troubles with the Legislature will disappear, because they are going to legislate to meet the wishes of the people.

Now, Mr. Chairman, I shall not take up any more time in connection with this matter, but I again thank you and thank the members of this Congress for all the courtesies which they have shown to us; not only during our stay here, but I may say for months past we have had courtesies showered upon us, and the Dominion Association felt that it was but right that they should send as large a representation as possible here to show their appreciation of all your kindness, and the Montreal Association followed in the same line.

I thank you, ladies and gentlemen, for your kindness in listening to me. (Applause.)

CHAIRMAN.—We now come to one of the most interesting parts of our programme. One of the prime objects of this Congress was that of bringing us together in order that we might discuss matters of common interest relating to our profession. To bring some of these concretely before you a paper has been prepared with a great deal of care. It has been discussed by members of the Executive Committee of the Federation, and it will be presented to you this morning. It certainly is not necessary to say very much about the gentleman who has written this paper. You all know him. He has been active in every field of effort: first in the local Society in Illinois; one of the prime movers there in all

the good work that that Society has accomplished; and to him more than to any other man is due the organization of the Federation which we feel has done such a noble work during the past two years. And you know, too, the relation he has borne to this Congress. How he has worked day and night, literally giving up his professional duties, subordinating everything to the task that was upon him in arranging for this Congress; I know you all appreciate what he is and what he has done and are waiting with much interest to hear his paper.

I now have great pleasure in introducing Mr. George Wilkinson, Secretary of the Federation. (Prolonged applause.)

GEORGE WILKINSON, C.P.A.—I thank you, friends, very much indeed for your kind reception of my name, and you, Mr. Chairman, for the kind remarks you have made.

Before proceeding with my paper I want only to say just a few words, on behalf of the Committee on Arrangements, to thank you all for coming to this Congress. We appreciate the enormous amount of effort that a great many of you have made to come here—the great personal inconvenience, the very large expense, the giving up of your own affairs, your business and your personal relations, and of engagements that you may have made. I know personally of a great many who have given up very valuable business engagements to be here, and I wish on behalf of the Committee to say that it is a very great satisfaction to them to find that such a large number of accountants have registered as members of the Congress.

The C. P. A. Movement and the Future of the Profession of the Public Accountant in the United States of America.

By GEORGE WILKINSON, C. P. A.

Secretary of the Federation of Societies of Public Accountants in the
United States of America.

Acting under the instructions of the Committee on Arrangements, the official Scribe of the Federation of Societies of Public Accountants has prepared this paper. The Committee determined the title as follows: "The C. P. A. Movement and the Future of the Profession of the Public Accountant in the United States of America." The wording of the title indicates two distinct provinces, first the Historian, second the Architect. Three

years ago a congress of Architects assembled here to draw up plans for the beautiful buildings and grounds of the World's Fair, in the very midst of which we are now assembled. Let us to-day constitute ourselves a Congress of Architects for planning the future of our profession. We are assembled here in due process of regular proceedings, all the public accountants in the United States of America have been invited to attend and those who have responded to the call and are here have equal rights. Surely no body of men ever met together with better right to make designs and to draw up plans for the future of their profession.

We have one great advantage: We have nothing to undo. What little tradition our profession in the United States has acquired in the very few years it has existed is good. We stand at the open door of the future which lies invitingly before us.

"THE C. P. A. MOVEMENT."

The history of the movement to secure State legislation establishing the degree of Certified Public Accountant, up to and including the year 1903, has been published in pamphlet form and, on the maxim of "silence gives consent," has been accepted by the profession in general, and by all those whose names are therein mentioned in particular, as a fair statement of the facts. Since that history was written we have to record the passage of a C. P. A. law in New Jersey and unsuccessful attempts in Ohio, Georgia and Louisiana.

Enough was said in that history of the trials and tribulations of various Legislative Committees, and of those enthusiasts who visited State Capitols and labored industriously to overcome the adverse prejudices of "hayseed" legislators. But for the sake of those who are unacquainted with that history, it might be well to recite the Roll of Honor and to remind you to-day that, but for the unselfish devotion to principle and the common good of others, displayed by the gentlemen named, "The C. P. A. Movement" had hardly yet taken root and certainly had never grown to be what we are proud to recognize in it to-day.

The thanks of the profession of the Public Accountants are due in no slight measure to these pioneers who bore the burden and the heat of the day, be it seven years ago or seven months. It affords us much pleasure to recite the names of:

Frank Broaker, of New York;
Charles N. Vollum, of Pennsylvania;
Max Teichmann, of Maryland;
Alfred G. Platt, of California;
Cyril M. Williams, of Washington;
J. Porter Joplin, of Illinois, and
Frank G. DuBois, of New Jersey.

These are the names of the men who labored hard and long in the cause of C. P. A. There are others too. Many survivors are there who might claim the victory, but the few names mentioned should be gratefully remembered by us all, because they stand out prominently as the men who set aside their business and convenience for the good of others.

C. P. A. LAWS IN FORCE.

The States just named are those having C. P. A. laws in force. Eight other States have tried unsuccessfully to secure the passage of similar laws, and, nothing daunted, will try again and again until they succeed.

The first law passed was in April, 1896, in the State of New York, where the examinations are conducted and the certificates granted by Regents of the University of the State of New York. In Illinois, where the law was passed in 1903, the old established State University of Urbana conducts the examinations and issues the diplomas. In both cases the examination questions are prepared and the answers examined by three Certified Public Accountants who are members of the State Societies.

In other C. P. A. States the certificates are signed by the Governor, while the responsibility of conducting the examinations is vested in a State Board of Accountancy, composed of three Accountants, while in Pennsylvania and California two Attorneys-at-law are added to the board.

UNIFORM LEGISLATION.

Much has been said about "uniform C. P. A. legislation" and it is regarded as so essential to the future of our profession that its encouragement is embodied in the Constitution of the Federation as one of the "objects."

Model C. P. A. bills have been prepared with much care, and have been approved by the Executive Board of the Federation; one being known as "The University Bill," and the other as "The Board of Accountancy Bill." Possibly these models are not all they might be, but at the least they convey in a succinct form a very good idea of all that has gone before, in the way of State legislation recognizing our profession, with copious notes of the reason why.

BEST FORM OF C. P. A. LAW.

It is still a mooted point which of the two forms of C. P. A. law, so far enacted, is the better. There are a few Eastern States with Universities under the jurisdiction of the Legislature, but in several of the Western States the Legislature can prescribe the duties of the State Universities.

Where the University authorities are quite willing to assume the responsibility and the work involved, a law that constitutes the University of the State the examining body is considered to be the more desirable form of legislature, especially when the examiners are chosen from among reputable public accountants practicing in the State, as they invariably have been up to this date. Certificates issued by a State University carry more of the prestige that attaches to an educational degree, and the value of these will increase as successful examinations are held.

The bill providing for a Board of Accountancy, to be appointed by the Governor of the State, is frequently found expedient on account of the inability or reluctance of the State University authorities to assume the burden imposed by the act. The State Board form of law is also found to be easier of enactment, as it is better understood by the lawmakers and more in line with previous legislation erroneously supposed to be of the same class.

It has sometimes been said that the State Board law is open to the objec-

tion that it may be made subject to political influence. To entertain this view is to do an injustice to those who have labored hard in the cause. Thus far nothing like undue political influence has been noted. On every board so far, the Governors have appointed accountants in good standing to serve as examiners, and these boards have exercised their own best judgment free from political interference, so far as has become known. An excellent precedent to have inaugurated.

CLOSED DOOR IN NEW YORK.

In the State of New York the text of the law makes it a misdemeanor for any person to assume the title "Certified Public Accountant," or make any use of the letters "C. P. A.," within the State of New York, unless he holds a certificate *issued to him* by the Regents of the New York University.

The laws of Pennsylvania, Maryland, California and Washington have the same penalty clause. If a New York C. P. A. assumes to practice as such in Philadelphia, Baltimore, San Francisco or Seattle, he is committing a misdemeanor, and is liable to arrest upon the complaint of any citizen.

Thus stands the law, but only in the State of New York has there been any attempt to enforce the restriction. Learned counsel, who has made these laws his special study, rendered the opinion that the legal holders of C. P. A. certificates issued by other States could not be denied the use of their title so long as they designated the State whose certificate they held. All the alien C. P. A.'s are doing this in New York to-day.

So far each State has enacted a law for her own citizens alone. While taking pains to keep the aliens out the States previously named have forfeited control of all the C. P. A.'s imported from other States. This is quite a serious problem, especially in New York, because thither flock accountants from all States, many of whom claim rank with the best. Illinois, Pennsylvania and Maryland contribute a dozen C. P. A.'s actually practicing in New York City to my own knowledge. New York has no control over these. Their certificates can only be forfeited by the authorities that conferred them, and they are not permitted to belong to the New York Society. Any offense committed in New York would be without the jurisdiction of the home State of the offender.

OPEN DOOR IN ILLINOIS.

In Illinois the lawmakers have swung to the opposite extreme. In framing the bill for the law enacted in 1903, a provision, previously unheard of, was introduced. This opens the way for persons holding certificates issued by other States to practice as Certified Public Accountants in Illinois without going through any formalities. This wide open door is now recognized to be a mistake, as there is no way in which the State authorities or the Illinois Society of Certified Public Accountants can discipline an alien C. P. A. who may infringe the code.

It is only a question of time when the laws above referred to must be amended. The door should swing both ways, but should not open too far.

RECIPROCITY FIRST PROPOSED.

At the Annual Convention of the Federation of Societies of Public

Accountants held in Washington, D. C., on October 20th, 1903, a report was read by Max Teichmann, President of the Maryland Association of Certified Public Accountants, in which a proposition was brought out to have the law of the State of Maryland amended so as to provide that accountants certified by other States, upon coming to Maryland to engage in professional business, could, for a small fee, register their certificates with the Maryland State Board of Accountancy and thus secure all the privileges enjoyed by those who had passed the State examinations, always provided that the State whence such visiting C. P. A. might bring his certificate offered the same privileges to accountants certified in Maryland.

Mr. Teichmann met with the experience of most reformers. A long discussion ensued in which this newly born reciprocity doctrine was not encouraged. But Maryland sowed her seed in better places than appeared last October.

RECIPROCITY IN NEW JERSEY.

The next C. P. A. bill to be promulgated was in the State of New Jersey. The minute the bill appeared in the Judiciary Committee of the House of Representatives, an amendment was offered by a member of the house providing for the introduction of a reciprocal clause. The New Jersey law, as enacted last spring, provides for the issuance of a full C. P. A. certificate, without examination, to any person residing in the State who holds a valid C. P. A. certificate from another State where the like privilege is offered. The applicant must pay the full fee of \$25, but the issuance of the certificate is at the absolute discretion of the State Board of Public Accountants.

RECIPROCAL REGISTRATION TO STAY.

The reciprocal registration feature has come to stay for the reason that it provides just the right measure of local control. Alien C. P. A.'s, who have registered their certificates with the local board, are accorded all the privileges and are subject to all the penalties imposed by the State laws. None others will be allowed to style themselves "Certified Public Accountants" within the borders of the State, or use the designation in any way.

It is not proposed to compel accountants to register in every State they may seek business in, but rather to provide a proper way in which a C. P. A. immigrating from one State to another can secure the privileges of and simultaneously become amenable to the local statute.

"C. P. A." AS A PROFESSIONAL TITLE.

The abbreviation C. P. A. has frequently been spoken of as a "degree," but there is no authority for this. Whether it shall become recognized as a diploma, a degree of learning or merely a license to practice, depends less upon the form of the law than upon the dignity with which the letters are upheld by the members of the profession and upon the merit of the technical examinations held.

It has been suggested that the letters C. P. A. constitute a specific professional title the equivalent for our profession of M.D. in medicine, D.D.S. in dentistry; LL.B. in law; also that the use of the courtesy designation



of Mr. or Esquire might be eliminated as unnecessary, as in other professions referred to. The suggestion is most worthy of consideration as tending to elevate the title which has now become the recognized designation of our calling.

PROFESSIONAL STANDING.

During the early years of the C. P. A. movement grave doubts existed in the minds of some of the ablest accountants in the country as to the utility of a legal designation. "It will be an equalizer," they said. "The penny accountant on the side streets will be placed on a legal equality with the best in the land." They asked, "Why should I exert myself, or contribute funds, in behalf of legislation that will only benefit the little fellow?" These are the questions of the short-sighted men who call themselves "conservatives," because they are content with the existing order of things, so far as putting forth any personal effort goes, but who are generally found among those who are bemoaning their sad fate and complaining that their business is going to the "dimnition bow-wows."

The last three years have clarified the situation. Illinois, California, Washington and New Jersey have secured a place in the slowly increasing family of C. P. A. States. "The C. P. A. Movement" has set in simultaneously from both coasts and there is no stemming the tide. It is true that the little fellow has been benefited. In receiving his certificate he has felt the uplift of a legal designation; the best that is in him shall henceforth be devoted to the profession. But the accountant with the well-established practice has not suffered by the enactment of State laws, for what is good for the entire body works to the advantage of each of its members.

It is not contended that a mantle of wisdom is conferred with the diploma; but in receiving a certificate from the State an accountant becomes a member of a legally recognized profession, and is amenable to control of the properly constituted authorities. And with him come others—practically all the others. Their status is defined, in a year the exemption from examination ceases and an evolution is begun. The future will bring with it the survival of the fittest, while those who enter shall do so by the straight and narrow gate of examination. The more young men who enter the profession through the door of which the examiners hold the key, the stronger we shall become as a professional class.

FORMATION OF NEW SOCIETIES.

In pursuance of the policy of organization, avowed in the Constitution of the Federation, the Public Accountants have been called together in several States. With all the energy the Executive possessed, the work has been carried into the West and South, where the need of it appeared to be greatest; in every State where we could find a half dozen men, devoting their lives to the practice of accounting as a professional career, they have been called together. The doctrines of organized effort and the gospel of "C. P. A.-ism" have been preached; the work previously accomplished in the other States has been described, the advantages set forth, considerable enthusiasm has been aroused and local associations have been formed. The



number of members in some of these new societies is quite small, but a nucleus has been formed and in nearly every instance the seed sown by the Federation has taken root.

This work has been severely criticized by some of our professional brethren in the East, who have called the Apostle of organized effort a "walking delegate." Our New York critics can see no reason for carrying the gospel of "C. P. A.-ism" to the prairies, where the Public Accountant is not recognized as a professional man, but is regarded as merely a clever bookkeeper. It may be that the work done in some States is ahead of the times, that the enthusiasm displayed at the initial meetings, held under the direction of an enthusiastic missionary, has died down and little has yet resulted in the way of a permanent organization. But the seed sown *has* taken root; the future will yield the fruit. It will take time to finish this work, to cultivate the newly planted societies until harvest time, but one thing has certainly been accomplished: the new societies have been brought under the influence of the National organization and the men left in charge of the newly formed associations have been imbued with the ideals and ethics of the older societies.

If we are to advance our calling to the point where it shall be recognized by the Federal Government as a dignified and learned profession, we must advance by equal stride in every State—East and West, North and South. Our demand for recognition, to be heard in the legislative halls of our National Capitol, must come simultaneously from every section of the country.

FURTHER STATE LEGISLATION.

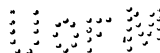
The question of seeking State legislation making audits compulsory has been much before Public Accountants' Societies in late years. Some accountants think that a proper equivalent of the English Companies Act should be sought in every State; but the fear is expressed that we are not ready to make any move in this direction yet.

Before we seek legislation that will make more work, we should firmly and fully establish the legal designation of C. P. A. After a majority of States and all the important ones have enacted C. P. A. laws, and the fact is recognized by the public that the best practitioners are certified, we can seek laws to compel corporations, in which the public are interested as investors, to have their balance sheets audited by legally recognized accountants.

The effect of making a premature effort to secure such legislation would be to attract to our calling a large number of persons whose lack of training renders them unfit to serve the public. There would be a great influx of worthless characters the minute it was known that any remunerative work had been created by the legislature.

THE ACCOUNTANT AS A BUSINESS ADVISER.

The most valuable service that the Accountant can render to his client lies along the lines of giving sound business advice. The accountant who is a good man of business acquires at every step of his career experience and business acumen that he can turn to the best account in serving his clients.



The accountant who is consulted on important business matters like agreements between companies, firms and individuals, or the adoption of new lines of business policy, is infinitely more valuable to the client than the mere man of figures. In our capacity as Auditors we are necessarily taken into the innermost confidence of our client, and what is more natural than that the accountant should be consulted in matters of management and the future policy of the business? The point is here: if the Accountant is individually competent to give good business counsel his advice will be sought. It therefore becomes most desirable that we should qualify ourselves by study and observation to become the adviser of our client more than the checker of our client's employees. Further, that we should favor the instructions of the rising generation of Accountants along lines of practical business utility as well as on technical subjects specified in State C. P. A. laws.

THE ACCOUNTANT AND THE PROMOTER.

The evolution of modern business methods has made the auditors' certificate so essentially a part of every prospectus for the flotation of a new stock issue that the relation between the accountant and his promoter-client has become one of much delicacy as well as great responsibility. In this connection it should be said that the Accountant's position should be absolutely independent of that of the promoter. This certificate should be an unbiased statement of facts, and of *all* facts, given under the exercise of the best judgment of which he is capable. Consideration, alike for his personal interests and the welfare of his profession, should teach him to abstain from any active participation in promotion. Above all, he should be most careful not to use veiled language as a cloak to hide the intrinsic facts. The Accountant who for love of gain, even if expressed in a reasonable fee for work performed, will withhold some essential facts from his client, and through his client from the investing public, is guilty of a crime, the effect of which is far beyond his ken.

The Accountant who engages in the promotion of companies ceases to be a public accountant and becomes a business man, a speculator. He forfeits his professional status the minute he loses his independent attitude, and if he continues to hold himself out to the public as a professional man of unbiased standing, he is guilty of misrepresentation which does himself and his profession an injury.

THE ACCOUNTANT'S RESPONSIBILITY.

In Great Britain the law holds the accountant both financially and criminally responsible for negligence and misrepresentation. There have been some notable suits for the recovery of damages and some criminal prosecutions in Great Britain, and these have tended to the employment of a greater degree of skill and care in auditing, and more caution in certifying. There is no law in the United States specifically holding auditors responsible, either in pocket or in person. A civil suit for damages or a criminal prosecution would have to rest upon evidence of direct fraud, wilful neglect or conspiracy, and would be difficult to secure, unless it could be proved to the jury that there had been *intent to do wrong*.



The responsibility of the accountant is professional and moral, not financial. If any penalties are to be provided for neglect or misrepresentation, they should be punitive and personal, involving the abridgment of privileges and individual freedom; the loss of reputation and professional standing; the forfeiture of certificates conferred by the State and by the society. The penalties should not be monetary so that they could be provided out of corporate capital.

FORFEITURE OF C. P. A. CERTIFICATES.

All the C. P. A. laws have sections providing for the forfeiture of the certificate by the same authority that conferred it, provided that sufficient cause be shown at a competent hearing of charges. So far as my information goes, no such proceedings have been held, and no forfeiture has been made. In history making we are young. Long may it be before there is occasion to invoke the power of the Governor of any of our States in this direction.

FORFEITURE OF SOCIETY MEMBERSHIP.

In like manner the by-laws of Accountants' Societies, or of most of them, provide for the forfeiture of membership for cause. So that the practical disbarment of men found guilty of wrong-doing is within our own hands. No thought of personal consequences should retard the prosecution of charges before the Directors of our Societies and before the C. P. A. Boards, when occasion for such action arises.

ACCOUNTANT NOT IN OTHER BUSINESS.

If we are to be considered as a professional class, it is highly desirable that accountants should not engage in any line of commercial or professional work inconsistent therewith. In this particular we can, with advantage, take a leaf out of the book of the older organizations in Great Britain, where it is specifically forbidden for members to engage in any other kind of business. For the present we must be content to encourage the observance of the principle in advance of the enactment of a law.

HIGH MORAL STANDING TO BE MAINTAINED.

One of the most vital considerations to the future of the C. P. A. degree, and hence to the entire profession, is that a high moral standard should be maintained in every State. If we are to make our calling honored and establish it as a learned profession we must maintain a high moral code, and we must find a legal way to keep out any black sheep that may stray in. A strongly expressed and rigidly enforced rule in respect to the moral character of candidates will always be a potent factor in securing public esteem. The New Jersey State Board of Public Accountants, in framing the rules under which examinations shall be held, have provided that all applicants for C. P. A. certificates shall make an affidavit that the statements therein contained are true, and one of the clauses states, in so many words, that the applicant has never been guilty of a crime. This is regarded as a wise provision, because the moral status is so difficult to determine in documentary form. This plan should be carried further. An applicant should be

obliged to swear that he knows no reason why he is not a fit and proper person to receive a certificate from the State as a C. P. A. Should an applicant knowingly make a false statement in his application, it would not be difficult for the local authorities to have his certificate canceled, when it transpired that his standing was not good. To do this, it should be clearly defined what constitutes "good moral character." A man who has been found guilty of a crime by a court of competent jurisdiction cannot successfully claim to have a good moral character, unless subsequent judicial proceedings have cleared his name. A man will not knowingly misrepresent the facts in making application for a C. P. A. examination under oath. But in the stress of his desire for a certificate, he might stretch his conscience in filling out an application that he was not called on to *swear to*. If it should be found that an applicant had perjured himself, it would be an easy matter to cause the forfeiture of his certificate.

Examiners cannot be too careful in this regard. The man with unclean hands should not be suffered to take the examination. Admission to the examination room, where the technical examinations follow all other inquiries, should in itself constitute a certificate of good moral character.

EXAMINATIONS.

It has been suggested that this paper should contain a recommendation that the rules under which C. P. A. examinations are held should be uniform in their practical effect as far as possible.

The essential conditions that a model set of rules should provide are:

First, as to the Candidate. Citizenship in the United States, a good moral character and a clear record; graduation from high school or an equivalent education; age limit, 25 for the full certificate with right to practice as a C. P. A.; at least one year, and, later on, three years, of actual practice in the office of a Certified Public Accountant.

Second, as to the Examinations. These should be in writing and should be conducted with decorum in the presence of at least one of the examiners. A candidate, in order to pass, should receive at least seventy-five per cent. of the total counts allowed on each subject. Questions should be fairly stated without catches, and be so arranged as to demonstrate the practical and constructive ability as well as the technical knowledge of the candidate.

Third, as to the Subjects. If the subjects in which the applicants are to be examined are not specified in the statute, they should be defined in the rules of the Board, thus: "Auditing," "Theory of Accounts," "Practical Accounting," "Commercial Law."

As the examiners who do the actual work are all practicing accountants, there is the greatest temptation to them to draw upon their own professional experience for difficult problems. This has been particularly the case in some recent examinations on the subject of "Practical Accounting." Examiners have repeatedly asked questions in recently held examinations that would defy the best accountants in practice to answer within the time limit. Therefore it is respectfully suggested to the Examiners, if you draw on your professional experience, gentlemen, *don't draw too deep*.

PREPARATION OF EXAMINATION QUESTIONS.

A suggestion was recently brought forward to have the questions before being used by the examiners scrutinized by some central bureau, to be conducted by a professor whose training and study should fit him for the difficult task and whose standing should place him beyond the reach of distrust, to the end that a uniform standard might obtain.

If such a bureau could be established under the auspices of the National Organization and could enjoy the co-operation of all the State C. P. A. examiners, or at least a majority of them, it would do much good in the direction of maintaining a high standard of examination. It cannot be denied that there would be room for abuse, for misunderstanding and for conflict of authority, also that State pride might interfere and raise obstacles. Some day this plan may be feasible.

AUDIT COMPANIES.

During the last few years a new form of conducting the accountancy business has been developed in the incorporated "Audit Company," of which there are several specimens in each of our largest cities. The remarks herein contained are applied to incorporated companies whose directors are not professional accountants. The plan is this: Half a dozen citizens who are engaged in business as bankers, merchants, lawyers, presidents of insurance or trust companies and the like, are induced to take some shares in an incorporated company and to become its directors. Flattering prospects are held out to them of profits to be made out of large accountancy business to be secured through the exploitation of their names and official titles, so they are "let in on the ground floor."

The names of the bankers and business men on the board are conspicuously advertised in city directories, trade papers, on the company's letter paper and elsewhere as a bait to draw business. It is obviously to the pecuniary benefit of the banker-director to send any business, over which he can exert an influence, to the audit company of which he is a shareholder, also to consent to a fee that he would call outrageous if charged by an independent accountant.

These questions follow: Can a corporation so organized fulfill the duties of the public accountant? Is it a proper custodian of the business confidence of the public? Is a corporation, whose directors are business men, without technical experience in the science and theory of accounts, really an accountant? Is it not a make-believe and a sham to call it an accountant?

In manufacture, trade or finance, the incorporated company has many advantages over the individual or the firm of individuals; among which may be mentioned, the limit of liability, the permanence of the corporation; the use of borrowed capital; the definiteness with which the company's position in the financial world may be ascertained; and the plan of government by which the brain power of several persons may be drawn upon. If these factors cannot be exercised for the good of the shareholders, where comes the benefit of incorporation?

In the business of the accountant some cash capital is necessary, but it plays the minor part, while brains, skill, personal integrity and technical

experience are the controlling factors. The banker-director can certainly lend his good name to a corporation, but how can he acquire expert experience and technical skill as an accountant and dispense them to the corporation's customers?

The brain, the skill and the technical experience must therefore be hired, so an accountant is employed as manager; if he dies or leaves the company's employ, another is engaged to take his place, and the company goes on as before. Now how does the principle of responsibility apply to the incorporated audit company that gets into disgrace? Where shall the blame be laid? Shall the banker, the merchant, the insurance company's president, and the other professional directors on the board, be summoned before the local authorities, or shall the salaried accountant-manager be arrested?

If it comes to the worst the company is dissolved. The accountant-manager rents a new office, removes his staff and stationery, gets a new sign and starts all over again, under a new name, with nothing to identify him with his unsuccessful past.

The influence of incorporated audit companies is to commercialize the business and reduce it to the common level of trades and manufactures, while our influence exercised through the societies we belong to must ever be in the opposite direction, to lift it up, establish high ideals and secure its recognition as a learned profession.

THE FEDERATION OF SOCIETIES OF PUBLIC ACCOUNTANTS.

The National Organization of our profession is the "Federation of Societies of Public Accountants in the United States of America." It was organized at the National Capital on October 28th, 1902, and is, therefore, not quite two years old. The members of the Federation to-day are the State Societies of Public Accountants in Pennsylvania, Illinois, Maryland, Massachusetts, California, Ohio, Michigan, Georgia, Missouri, Minnesota and Washington. These Societies embrace a total membership of more than two hundred practicing public accountants. Each of these Societies is sovereign in its own realm and acknowledges allegiance to the Federation only in respect of matters National.

The Federation is governed by an Executive Board to which each Society contributes at least one member. Most of the executive work of this Board is delegated, under the by-laws, to an Executive Committee of five of its members, to which Committee are added the three Executive Officers.

The objects for which the Federation was formed may be stated briefly as follows: To bring the several societies of public accountants into friendly contact; to encourage the formation of further societies of public accountants; to encourage State Certified Public Accountant legislation on uniform lines; to secure Federal recognition of the profession of public accountant; to facilitate the training of young members of the profession and to further the interests of the profession in other ways. In pursuance of these objects the several Accountant Societies have been brought into close and cordial relationship, both at conventions and by correspondence; a dozen new societies have been formed; model C. P. A. bills have been com-

piled and promulgated; and this Congress has been brought together. So far the work has been formative; we are now ready to embark upon a useful career, "to further the interests of the profession of the public accountant generally."

THE AMERICAN ASSOCIATION OF PUBLIC ACCOUNTANTS.

Another National order, organized on entirely different lines, is the American Association of Public Accountants, incorporated under the laws of the State of New York in 1887. The Association has, according to the latest published list, 140 members, of whom about 100 are practicing public accountants. As an overwhelming majority of its members are in practice in New York, its meetings are held there and the members of its Board of Trustees reside or do business in Manhattan.

THE NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS.

The largest State society is the New York State Society of Certified Public Accountants, with an even hundred members, all of whom have received C. P. A. certificates from the Regents of the University of the State of New York, and many of whom are simultaneously "Fellows" of the American Association. This New York State Society was a Charter Member of the Federation and remained such until June 13th last, when at a meeting of its members, held at the Waldorf-Astoria Hotel, a resolution was passed reading as follows: "*Resolved*, That this Society withdraw from this date from membership in the Federation of Societies of Public Accountants in the United States of America."

A certified copy of this resolution was transmitted to the Secretary of the Federation, but with it came no explanation of the summary action of the Society.

PROPOSED AMALGAMATION.

Since the unexplained withdrawal of the New York Society a movement has been set on foot to unite the Federation and the American Association. To that end a joint committee was appointed last June and has held three conferences.

A majority of this committee are in favor of a National Association of individual public accountants and of making certain amendments in the Constitution and By-laws of the American Association, designed to open the door to the members of all State Societies as such. The members of the joint committee representing the Federation hope to be able to bring about an amalgamation on very satisfactory lines.

FOR THE FUTURE.

And now, in closing, let me say a few words as to the future. There are several ways in which many, if not all, of us may embark our energies on behalf of the future of our profession. Let me call your attention to just three:

First: Attending the regular meetings of our respective State Societies,

and there reading, or listening to the reading of, well considered papers on technical subjects, upon the preparation of which shall have been spent careful study and research.

Second: Attending gatherings of business men in other walks of life, bankers, lawyers, insurance men, and the reading of carefully prepared essays *of interest to them*.

Third: Assisting the Faculty of our State Universities by giving lectures to advanced students in accountancy and economics.

The attitude of indifference assumed by some accountants, who are habitually "too busy" to take up any kind of useful work, unless a fee is attached, is holding our profession back; while the zeal and enterprise of perhaps less gifted brothers, who are willing to work, is slowly but surely leading us on to higher planes. We are not all gifted in this direction, but the fact remains, however we may close our eyes to it, that each one of us has some inherent faculty for usefulness to others if he will but bring it forth.

ROBERT H. MONTGOMERY, C.P.A. (Philadelphia).—Mr. Chairman: I am quite sure that all of us have listened with a great deal of interest to Mr. Wilkinson's paper, and as it is desirable to have the discussion follow somewhat systematically, I would move you that the discussion be along three lines: (1.) "The C. P. A. Movement." (2.) "Audit Companies." (3.) "National Organization." These three headings have been suggested because it has been found that these three subjects are of special importance, and several of the members of the Congress expect to have something to say along these lines. I would further move that the discussion on each subject be limited to twenty minutes, and that no speaker be allowed to take more than five minutes unless by unanimous consent.

(Motion seconded; put to vote and unanimously carried.)

CHAIRMAN.—The discussion, then, is first upon "The C. P. A. Movement," and I would like to call upon Mr. Martin.

JAMES MARTIN (London).—Mr. Chairman, Ladies and Gentlemen: I will endeavor, in the course of the short time which has been allotted to me to say something on the first part of this subject, namely, "The C. P. A. Movement," and I take it that that includes the legislation which has so far taken place, and further attempts at legislation.

In the first place I hope Mr. Wilkinson will allow me to offer him my most cordial congratulations upon his paper. It does seem to me marvelous, that having regard to the fact that he goes to bed in the early hours of the morning, and is out of bed again

before most of us are awake, that he has been able to prepare and to put before this Congress such an excellent paper.

I would like to take the opportunity of referring to that most interesting address we heard from Mr. Hyde at the opening of this morning's session. I think it very fortunate for us that Mr. Hyde's address was postponed from last night until this morning, as it seems to me that it has more bearing upon the subject that is now before us.

In the few remarks I shall offer you there shall be nothing of a controversial nature, as it would be discourteous both to you, as my host and to my fellow guests, were I to introduce anything in the nature of controversy to this assembly, but in dealing with the C. P. A. Movement in the United States of America I am compelled to refer to a movement for registration of public accountants in my own country. For reasons which I need not enter into here, that movement has not been successful in Great Britain and Ireland, but I am glad to say that it has had some measure of success in our colonies—in at least one of them. Finding that we could not come to any agreement in Great Britain and Ireland as to an act, which should register all public accountants, we turned our attention to Australia, and we were fortunate in the Colony of Victoria in getting all the different bodies of accountants to send a bill to be placed before their parliament. Unfortunately, Australia is dominated very largely by the working classes, and the working classes of Australia have nothing in common with professional men, and they brought our efforts to naught. Since then we have turned our attention to the latest acquisition of the British Dominions, namely, the Transvaal. Just before I left London to attend this Congress I had the satisfaction of receiving a cable to the effect that the Accountants' Ordinance had passed the Transvaal Legislature, and had received the consent of the High Commissioner on behalf of the Imperial Government.

I just want for a moment to compare your C. P. A. legislation with the act just passed through the Transvaal Legislature. Mr. Wilkinson stated in his paper that in the State of New York the text of the C. P. A. law makes it a misdemeanor for any person to assume the title of certified public accountant, or make any use of the letters C. P. A., unless he had a certificate from the New York University. That, I think, is the most stringent clause he was able to put before us. Now I don't think myself that that

goes far enough. This is the text of the law as we have had it passed through the Transvaal Legislative Assembly:

After the passing of this Ordinance no person shall describe himself or hold himself out as an Accountant, or as a Public Accountant, or as an Auditor, or use any name, title, addition or description, or letters indicating that he is an Accountant by profession, or a Public Accountant, or an Auditor, whether by advertisement, by description in or at his place of business or residence, by any document, or otherwise, unless he is registered as a Public Accountant in pursuance of this Ordinance: Provided always that this Section shall not prevent any person employed exclusively at a salary on accounts and not carrying on business on his own account, from describing himself as an "Accountant" in respect of or in relation to his occupation.

The penalty for infringement is as follows:

Any person not registered as a Public Accountant in pursuance of this Ordinance and describing himself or holding himself out as an Accountant or as a Public Accountant or as an Auditor so as to contravene any of the provisions of Section 1 hereof shall be liable to a fine not exceeding one hundred pounds for each offence, and in default of payment to a period of imprisonment not exceeding three months.

It seems to me that that should be the object and aim of all legislation in regard to accountancy. It is all very well to say you protect the C. P. A. Movement, and that a man may not call himself a Certified Public Accountant, but directly you get your body of Certified Public Accountants in your State in good working order, you will find men spring up who will call themselves Accountants in some other description. What I think the American Accountants should aim at is that they should determine the path along which they intend to go. I don't mean that they should only go so far as they may think it is expedient to go, but they should look their policy full in the face and make up their minds to pursue it to the very end.

But I would make just this one suggestion to them, quoting from my own experience: that they should never allow the spirit of disunion to creep in anywhere. Unless the American Accountants unite themselves State by State, they will find that instead of pursuing a policy which will be for the advancement of each and all, they will be engaged in the very unprofitable process which has been described by an English Statesman as "ploughing the sand." (Applause.)

J. S. M. GOODLOE, C.P.A., of Columbus, O., (President of the Ohio State Society of Public Accountants).—Mr. Chairman and

Gentlemen : I am very glad to hear what Mr. Martin has to say. It is practically on the lines of what we tried to do in Ohio. Our proposed Ohio bill provided that any person who received the C.P.A. degree in any State in the Union, or who had received an equivalent degree in any country could have his certificate registered in Ohio and practice as a Public Accountant under the C. P. A. designation; but that no person should practice as a Public Accountant within the State who had not been so registered.

Now we have in Ohio at the present time a countryman of Mr. Martin's who is holding himself out as a Chartered Accountant. They advise me from over there that he is not a Chartered Accountant; he is not in the register. What protection have we under the present C. P. A. laws against this man? We welcome genuine chartered accountants.

Chartered accountants stand at the top, as we all know. This man steals their reputation. He damns, if I may be allowed the expression, all of our good English friends. He has done more to hurt accountants in our part of the country than we can overcome in a long time. He is an embezzler; he is an impostor. Aren't we entitled to some protection against men of that class? Under our proposed bill it was to be given to us. We were severely criticised. Our honorable Secretary said it was a bad bill, so it didn't matter if we lost it. But I think we want to fight it on, even if we lose it again and keep on losing it. Rather lose a good bill than get one that simply says we can call ourselves C. P. A. We can go to some other State and take the C. P. A. degree. Some of us have done that. But the law of Ohio says that a man cannot practice medicine, cannot practice at the bar, without having passed an examination in the State of Ohio. If he passes his examination and submits proper credentials to the State Board of Examiners, he is admitted to practice without question. I think accountants should be in the same class. I believe our bill is in advance of any others.

HARVEY S. CHASE of Boston (Secretary of the Incorporated Public Accountants of Massachusetts).—Our Secretary, in his cheerful way, has referred to the old maids of Massachusetts, of whom I happen to be one, and while old maids are inclined often times to be a little slow still they have their good qualities.

In relation to the C. P. A. Movement as Massachusetts looks at it, and as I understand it, Massachusetts has preferred to wait

until it could see what was happening in the other States before it took what it considered an extremely important and decisive step for C. P. A. legislation. Its opinion so far has been that it will be better to wait a little while longer before taking the step of the C. P. A. legislation, for the reason that the laws passed in the other States seem to us to be merely a single step. The Incorporated Public Accountants of Massachusetts have requirements of admission to their Society which are certainly much more stringent than that of any C. P. A. law which has been passed, or which could be passed at the present time. We require five years' experience in public accounting with the shingle out, and the passing of a careful examination as to morality and so on, before admission to the Association.

As Mr. Martin has put it, we need to look a long way ahead of what we are now looking at as C. P. A. legislation. C. P. A. as it now stands is a good thing, but we must remember that ninety-nine per cent. of the C. P. A. members in this country to-day are men who came in under the waiver clause; they have not passed any examination; they stand exactly as the I. P. A. do in Massachusetts. The title itself gives no strength so long as the men have not passed the examination and have come in—have been accepted, because they were well known and acceptable public accountants.

C. P. A. legislation requires a much more forcible handling of the whole matter than it has had so far. (Applause.)

HENRY MAGEE of Camden, N. J.—Referring to the remarks that have been made in relation to C.P.A. legislation, I have a special interest in the discussion, being from New Jersey, and special mention having been made of New Jersey by our distinguished Secretary.

I have made application recently for a C.P.A. certificate, and they not only wanted to know the date on which I was born, but they wanted to know everything I had done since that day. I do not wish to speak of that in a disparaging way at all. I only wish to state that there is some degree, and a considerable degree, of investigation in connection with the C. P. A. certificate. I have been practicing a number of years, and I had to state very thoroughly the various industries I had been connected with in my practice in that time, and the names of the prominent concerns—and they had to be prominent—for reference as to my application for a certificate. I learned further that they had written to my

references, and thoroughly interrogated them in relation to the certificate. In other words, they seem to go thoroughly into the matter, and while I am not obliged to take an examination, I will be obliged to very exhaustively state the period of my experience, and also the variety of it.

Further in that connection, I have to state that four or five years ago, when the Pennsylvania law in regard to C. P. A. was passed, I then thought that it would be of no material use. I have been very busy since then, and although I have applied for examination under the Pennsylvania law I do not know whether there has been any examination since my application. Of the New Jersey law as passed I shall be glad to avail myself, and I feel sure it will be a great deal of benefit to me in my business if I secure the C. P. A. certificate. (Applause.)

FREDERICK A. CLEVELAND, Ph. D. (of New York City).—Mr. President, Gentlemen of the Convention: It has occurred to me that there is one flaw in the whole C.P.A. Movement that has not been properly eliminated, unless that elimination might come from the suggestion of Mr. Martin.

Mr. Chase has just said that in his State, while they have a very high standard for the title which the Society gives, one must practice at least five years with his shingle out before he can obtain that title; in other words, before they can have any control over him he must have practiced five years. Now there are the histories of a number of growing professions that we might refer to and in all of them the keynote of professional elevation has been one of control. The C. P. A. Movement has not been one primarily of control, but one of advancement and education, and it has been one of cultivating public professional ideas. Any regulation that we have is purely incidental and is not comprehensive. Now if associated with the I. P. A. Movement in Massachusetts, or the C. P. A. Movement in New York, or the other movements in other States, we have a local provision which has back of it the opinion of the profession, and which requires the registration of an Accountant before he is permitted to practice, the State then has control over him, and the profession can set standards for the State. And how can these standards be impressed on the State? Not only in matters of professional ideals, but in malpractice laws. There is no instrument in the hands of a profession to-day, whatever that profession may be, so effective as malpractice laws. Let not an accountant hold himself out as ready to accept business as

a Public Accountant unless he registers, and then require of him that he become criminally and civilly liable for what he does; the penalty not only being civil and criminal responsibility, but the taking away from him of his right to practice in rescinding his registration. And I think that the whole profession can unite on such a movement, without respect to what our Societies for education and professional promotion may be. I think that is the first step towards a uniform movement in the education of the public and of the profession to a higher professional standing.

ALFRED G. PLATT, C.P.A., of San Francisco, Cal. (President of the California Society of Certified Public Accountants.)—Speaking for California, I desire to say that we attempted to get an act through there identically the same year that New York succeeded in 1896. We failed. We tried to get it in 1898 and again we failed. In 1900 we succeeded.

In drafting the act a great many thought it would be wise to incorporate in it some of the wording that occurs in the civil and penal codes of our State, where it alludes to expert accountants, such persons being authorized to be employed by boards of supervisors, grand juries, and appointed by Superior Judges. When we drafted the act we said that any citizen, at the age of twenty-one years, of good moral character, etc., passing the required examination, could style himself as "Certified Public Accountant or Expert Accountant."

The political code of our State provides for the appointment of Bank Commissioners, of whom there are four, and two of them must be expert accountants; the Building and Loan Commission consists of two members; both must be expert accountants. So we took that wording as being a pretty good foundation to work upon. Soon after that act was passed I had the pleasure of being appointed by the Governor one of the members of the State Board of Accountants.

Then we asked the opinion of our Attorney-General, and he went further than even we expected—he told us that under the Act we could make any restriction that we saw fit, or make any complaint that we might have to make against a person calling himself an expert accountant or a public accountant—we cannot deny a man the privilege of calling himself an accountant or auditor, but when he adds anything to that by way of qualification of a higher degree of competency, we have him. That comes under the misdemeanor clause. Several of these Audit Companies have

come into the State to do business. Whenever I heard of them as Secretary of that Board I notified them and they retired. (Laughter.)

I want to say further that I think we ought to make up our minds to reject the word "expert." You don't call a lawyer an "expert lawyer." (Applause.) Call yourself a Certified Public Accountant, or a Public Accountant; as to expertness your client can best judge.

Under the interpretation of our act as given us by our Attorney-General, we have complete control of the issuance of the certificates, and we don't issue a C. P. A. certificate until a man has been in practice, holding himself out as a public accountant, exclusively practicing on his own account, as principal, for three years; he has to pass a good examination, seventy per cent.; and then bring in indorsements from five clients for whom he has done business for the past three years. We did that to prevent a graduate from a high school or a university, without the practical knowledge, from securing the certificate.

CHAIRMAN.—We will now proceed to discuss the second division: "Audit Companies."

THE SECRETARY.—A representative—the Vice-President or Treasurer, I think, of the American Audit Company, of Cincinnati, is with us this morning. We have asked him at a moment's notice to reply to this part of the paper. We had arranged with Mr. Stockwell, of Philadelphia, who is a member of our organization, to come here. He is a capital speaker, and we regret very much to learn that his wife is very seriously ill, and so he was unable to come. We must say in regard to Mr. Miller that he has had no time at all to prepare for this discussion. We have asked him to come up here and take the other side of the question.

JAMES ALBERT MILLER, of Cincinnati.—Mr. Chairman and Gentlemen: I feel it quite an honor to stand here in the place of one so well known as Mr. Stockwell is, and hardly feel that even at my best I could do anything which would at all justify my presence here.

I observe from the tremendous applause given the former speakers, that I am in a hopeless minority—I won't say hopeless; I will say minority.

While I thoroughly believe in anything and everything that will lift accountancy to the very highest standard, it did seem to me that this particular part of the paper presented by our Secre-

tary, than whom no man I hold more highly in esteem, appeared to be more in the nature of a personal attack. I believe we cannot say to our fellow accountant how he must practice. I believe that we should have regulation as to the degree of ability and as to the character, and those things, and my many friends in the Ohio Society will vouch for me, I think, in that respect, but I do most heartily take exception to the remarks which have been thrust at audit companies. I cannot see very much difference between a company, we will say called the American Audit Company, and a corporation called John Smith & Company. We have many corporations of accountants practicing. I don't know many of them, but I know there are some. The principle which I think should apply should be the efficiency and the ability of the men comprising such companies. Now the argument has been advanced that bankers and other men of affairs—merchants and manufacturers—could organize a Company, engage a manager who might be a C. P. A., who would surround himself with a number of inferior people to practice and make reports and audits and all that sort of thing. So can a firm. I could tell you of firms of accountants and individual accountants who have surrounded themselves with fairly incompetent men, and as principal this man would be allowed to take precedence over an Audit Company which might be surrounded with capable men in every particular. If I am not mistaken, our worthy Secretary was at one time employed by a corporation. I am not sure but that corporation still exists. I know of firms where the names used in the title belonged to men who have long since passed to their reward, and which firms are now controlled by any old fellow and he may sign that name and use it in his practice. I believe we should have a law which would make companies liable; I believe we should have a law which would make individual practitioners liable. I thoroughly believe in that, and I would be one of the first to encourage such legislation.

Now our worthy Secretary has referred to the flattering profits that have been held out as a bait to bankers and manufacturers. I have not had any such experience. He may have had—that I do not know. I do know this: that there are some individual practitioners and some companies, like John Brown & Company, practicing under names which are really not their own individually because it is a corporation. I contend this: that it is not absolutely necessary for a director in a bank who may be a shoe manufacturer,

to know all about running a bank. He may not know a thing about the various exchanges that pass through that bank, but I do contend that he may be a good director of that bank, because he is a good business man in general. And I contend that a man may be a director in an Audit Company, and may be able in a general way—in a broad sense, to direct its affairs very capably and very satisfactorily.

I think, gentlemen, that it would have only been fair to have allowed the representatives of the Audit Companies to know in advance about such a discussion. The Secretary has said that the Executive Committee approved, if I quote him correctly, the criticism of the Audit Companies here to-day. We have no representatives of Audit Companies here to-day. We have had no caucus, nor agreed upon any particular plan of answer to these charges. But I should be very glad if the Secretary of the Federation and the Executive Committee would at some time arrange a conference and in advance notify the members of the Audit Companies, so that a general discussion might be had upon their merits. (Applause.)

JOHN EVERETT (Chicago).—I am really quite a stranger in this meeting, but all the talk about Audit Companies seems to have cast a reflection on me. I was the original Audit Company man. I organized the first Audit Company. They have been in business quite a number of years and will be in business quite a number of years to come. Don't worry about the manner in which we conduct our business. Let us work at this C. P. A. legislation and get that going along. Whether you want to conduct a partnership or an audit company or to do business as an individual has nothing to do with the C. P. A. Let that alone.

CHAIRMAN.—If there is no further discussion of Audit Companies we will now take up the Third division of the subject: "National Organization."

ARTHUR LOWES DICKINSON, F.C.A., C.P.A. (New York City).—Mr. Chairman and Gentlemen: I would like to say a few words to you as to the present status of the negotiations between the Federation of Societies of Public Accountants, The American Association of Public Accountants and the New York State Society of Certified Public Accountants, to which Mr. Wilkinson has referred in his paper.

The American Association Mr. Wilkinson has already described to you, and you will see that it is in fact the oldest organi-

zation of accountants in this country. It has existed for many years, with a constitution and by-laws which were at the time they were drawn up no doubt the highest ideal that could be conceived. But the profession went ahead faster than the Association, and Accountants from all over the country, feeling the need of a different organization, came together two years ago and formed the Federation. In the Federation scheme I believe we have the highest ideal at the present time of what a National organization should be. Since its initiation there has been considerable discussion as to the possibility of the two National Societies coming together. The result is that at the present time the American Association is quite alive to the fact that its present form of Constitution and By-Laws is not altogether that best suited to the needs of the profession and within the last few days a Constitution and By-Laws have been drafted upon which the representatives of the American Association and the Federation, will, I believe, be able to come to an agreement satisfactory to everybody, provided that both bodies will make certain concessions, as I believe they are prepared to do.

The importance of such an agreement is very great, because although the Federation is strong in the States outside of New York, the American Association is perhaps equally strong in New York State, and it is obvious that if the accountancy profession is to be united all over the country, you cannot have the State of New York, which is the biggest State and has the largest number of accountants, standing outside of that movement.

I would like to tell you how the plan stands at the present time. It is proposed to leave unchanged the name of the American Association of Public Accountants, which is now known all over the country as that of the oldest Society; in the opinion of some it is a more satisfactory name than the longer one which the Federation was partly forced into by the fact that the American Association at that time would not join its organization. Subject to a few minor details I think I may say that in the proposed plan the Name, Charter and Seal of the American Association are all that are left; and it will adopt a new Constitution and new By-laws.

In the objects as stated in the proposed Constitution the two main principles which the Federation has always had in view are incorporated, namely, the bringing together of the different State Societies, and the promotion of C. P. A. legislation, and added to that, is the essential principle that the National organization must

not interfere with the local interests of the different Societies. It can advise and suggest, but local matters must be looked after by the State Societies, leaving the National body to attend to National affairs.

As regards membership, the suggestion is that the Societies shall join the American Association as Societies. Their individual members will become enrolled as individual members of the Association, but their voting privileges are restricted and can only be exercised through delegates who are to be elected once a year. The individual members of these Societies can attend the meetings and take part in the discussions, but they are bound by the votes of the delegates whom they have elected to represent them.

The American Association at present has some members who are not members of any State Society, and for one reason or another are not eligible for membership. Not being eligible does not mean that they are not good accountants and entitled to practice, but either that they are practicing in States which have no Societies or that they are not Certified Public Accountants and cannot become such without an examination, which to a man of any age or standing is a serious obstacle. Such men are eligible for membership in the American Association subject to their possessing certain qualifications, and they *must* be provided for in a National organization. The suggestion made and insisted upon by the Federation members of the Committee is that these Members-at-large, as they are called, as distinct from Society Members, must also vote through delegates and not as individuals, and a method be provided by which they can elect such delegates each year.

Second in importance comes the election of the governing body of the Society. At the present time, and for many years past, the American Association has been trying to be a National Association and to do as good work in that line as its Constitution and By-Laws would permit. But it has been mostly a New York Society. The whole of its Board of Trustees are drawn from New York and New Jersey, and all meetings are held in New York. That is not the condition that ought to exist in a National Society, and the draft amendments therefore provide that the Board of Trustees shall consist of the Officers, the Presidents of the State Societies as Vice-Presidents and nine other members, and that no more than three of such members shall be selected from members of the same State Society or from the members at large.

Moreover, in order to insure that the Officers shall be of the same representative character, it is provided that no more than one Officer, exclusive of Vice-Presidents, shall be members of the same State Society or be selected from the members at large unless elected thereto by a two-thirds vote.

Another feature is that there shall be low subscriptions for society members, viz., half that paid by the members at large. It is further suggested that in future no individual members shall be admitted to the National Association except as members of a State Society unless ineligible for that State Society, and members who wish to come in under that rule will have to bring forward evidence satisfactory to the Board of Trustees that they are not so eligible to membership in the Society of their State or District.

The organization of a National body on these lines will be the greatest thing ever done for the profession in this country, and if accomplished the credit will largely belong to our friend Mr. Wilkinson. He has not always agreed on the details of the subject, but he has always fought strongly for the essential principles. If it had not been for his efforts in the formation and growth of the Federation we should never have been to-day as near as we are to the attainment of our object, viz., the organization of a National Society embracing all practicing public accountants in the country. With a National organization the prospects of Federal recognition, whether by Federal Charter or under a Federal Corporation Act, or under Acts regulating Interstate Commerce, are better than they have ever been and with the aid of such a body, representing all the Accountants in the United States of America, it cannot be many years before we receive in some form or other National recognition.

CHAIRMAN.—We have a few minutes for further remarks. Failing that, the Secretary will have the floor to reply to the remarks that have been made in the discussion upon his paper.

GEORGE WILKINSON.—The Secretary is very reluctant to extend the time devoted to the discussion of this subject and he will endeavor to be brief.

A great deal of the discussion has been very convincing and really does not call for any reply. But there are one or two points that I would like to reply to. One of them is in connection with what our friend, Mr. Martin, of London, told us. I fear that he does not quite appreciate the difference between the Transvaal or any of His Majesty's Colonies, and the United States

of America. In the Transvaal there is one government, one parliament, they have one High Commissioner, and ultimately they have one Monarch to look to. We have forty-five States and ninety houses of law makers, and these ninety houses of law makers don't look at it in Mr. Martin's way. They tell us, as they told me in 1897 when I went to Springfield, Illinois, to try and get a C.P.A. bill passed, they will not give us what they regard as a monopoly of the profession of the Public Accountant. Some of you will understand the phraseology of the member of the House who told me he "would like to know what youse fellows want; if youse want a lead-pipe cinch I am agin you." There is just the complication. If they think we want to put a fence around the profession of the Public Accountant they are "agin" us. If they think we only want something fair, they will give it to us. There are seven States that have given us C.P.A. laws and the other States will do so in time. As soon as we have legislation in a majority of States, we shall have a profession and shall have an established degree of C.P.A. We shall never be able, in the United States of America, to get them to make laws that the accounts of all companies *must* be audited by Certified Public Accountants *only*. We shall never be able to pass laws that will permit none but Certified Public Accountants to *practice accountancy*. I am against the view expressed by Mr. Goodloe for that very reason. That was the reason they lost their bill. (Calls of "No, sir; no, sir.") One of the reasons you lost that bill. ("No, sir; no, sir.")

It is after all a question of expediency. What is the *best* thing we can do. Now, the best thing we can do, Mr. Martin told us, is to secure a monopoly of the business; but we *cannot* do it. Now let us do what we *can* do, and that is to establish the degree of C.P.A. Then we shall have a *profession* and can go to the law makers, and point to this profession, and say, "There is a profession that ought to be recognized. You ought to make these large companies in which the public are interested have their balance sheets certified by a C.P.A. who has a recognized standing in the community; then the public who buy their bonds and their shares will know something about them." That will appeal to the hostile legislator, but if you go to him and ask for "a lead-pipe cinch," he will repeat "I am agin you."

One word in regard to what Mr. Magee said about the New Jersey law. I am glad he did not speak in a spirit of resentment

about it. I want to tell you that the New Jersey law is very different from all others. It is a simple law creating the "State Board of Public Accountants," and it gives them almost unlimited power. They can collect what fees they like and make whatever rules they like. No such law was ever passed for public accountants before. It would be a bad law unless they had a good Board; but they *have* a good Board and in their hands it is a good law. They have established rules, and by the carrying out of these rules they are going to have a splendid order of things in the State of New Jersey.

In regard to what Mr. Miller said, I am much obliged to him, on behalf of the Congress, for having jumped into the breach and filled the place on such short notice, which would have fallen to Mr. Stockwell of Philadelphia. I told Mr. Stockwell that I should attack Audit Companies on general principles, and he said he "would go for me." But, unfortunately, he could not come, and I think our thanks are due to Mr. Miller for the splendid way in which he took up the question of Audit Companies. I do not desire to make any personal attack upon anybody, and least of all on Mr. Everett, of Chicago, who established the Everett Audit Company, but I *am* against those audit companies whose directors are *not* accountants. I have not a word to say against those audit companies whose directors and whose shareholders are public accountants making a living out of the practice of accountancy in connection with that corporation. In some particular companies that I have in mind the Directors are all Certified Public Accountants.

In regard to what Mr. Dickinson says, I sincerely hope we can come together with the American Association. What we want, gentlemen, for our profession is one National organization. (Applause.) We want an organization that everybody can work for; that Pennsylvania, Illinois, Maryland, New Jersey, Ohio, Michigan, Missouri, Minnesota, Massachusetts, California, Washington, Colorado and Louisiana and all the rest of the States can stand by, that they will have confidence in, and to whose Council they all can say, "Go ahead; we don't want you to submit all the details to us: go ahead, armed with all the force we can give you." That is what we tried to build up in the Federation. When the New York State Society withdrew we had, as it were, our right arm and our right leg, if you choose, cut off, but we were still alive: we had a trunk and a head and we could hobble along on crutches. If we can

regain the whole of our body and stand right at the head and take an active part to secure Federal recognition, I say *by all means let us do it*. I don't propose any longer to be the one juryman who speaks about "the obstinate eleven."

CHAIRMAN.—The Congress now stands adjourned until 2.30 p. m.

A hasty luncheon was taken at the "Administration Restaurant" near the Assembly Hall.

TUESDAY AFTERNOON SESSION

Meeting called to order, pursuant to adjournment, at 3.30, J. E. Sterrett, C.P.A. in the Chair.

CHAIRMAN.—Mr. Dickinson has asked me to announce to the members of the Congress that he has a few copies of the suggested changes in the Constitution and By-laws of the American Association. These are available to the members of the Congress, and can be had upon application to Mr. Dickinson.

The Secretary has an announcement to make in reference to the meeting of the delegates.

THE SECRETARY.—I would like to ask the delegates of the Federation to meet on Wednesday afternoon. I will announce the time a little later. Immediately following that we will have a meeting of the Executive Board of the Federation. We have very important business to do and that is the earliest opportunity we can avail ourselves of.

CHAIRMAN.—The Institute of Chartered Accountants in England and Wales is to American accountants probably the best known of any accountant body in the world. The Institute has been in existence for some twenty-four years, and I think we might say its principal contributions to accountancy have been in the high standards that have uniformly been maintained by that organization in the efficiency of its individual members, the education and training that has been afforded to students in preparation for their life work, and in the literature that has been contributed by members of that institute. There has been no body of men who have provided us with so much that is so good in the way of professional literature as have the members of the Institute of Chartered Accountants in England and Wales.

When this Congress was proposed an invitation was sent to the Institute that a representative be sent here, and they very kindly and cordially accepted the invitation and have sent to us the gentleman who spoke to you very briefly yesterday. One who has been prominent in councils of the Institute for many years and

who has just recently retired from the Presidency of his organization; one who has contributed much to the best life of that organization, and who, through his writings, is known very extensively among American Accountants, and who has done in that respect a very great service to accountants all over the world.

The representative of the Institute has traveled several thousand miles to meet with us, and to read a paper upon the subject of "The Duties of Professional Accountants in Connection with Invested Capital, Both Prior to and Subsequent to the Investment." This is a matter that is of the deepest interest to every practicing accountant, and I am sure you will listen with earnest attention to the paper which Mr. Francis W. Pixley will now read to us.

(Mr. Pixley is greeted with applause.)

FRANCIS W. PIXLEY, F.C.A.—Mr. Chairman, Gentlemen of the Congress: I thanked you yesterday for the very kind reception you accorded me when my name was read out as one of those from abroad who were present at this meeting. When the invitation came from you to the English Institute I had just left the Chair as President, and I passed it on to my successor. It was subsequently considered at a meeting and was referred to the General Purposes Committee, at which I was unfortunately unable to be present. But I was very pleased to hear afterwards that they had resolved to recommend to the council that a delegate should be sent to this representative meeting, and I think they felt that it was a movement by all the recognized practitioners in the United States of America, and that it was going to be a meeting of the greatest importance at any rate to those on this side of the Atlantic. I was at the meeting of the council at which this recommendation of the General Purposes Committee was brought up, and it was carried without a dissenting voice. I was all the more pleased when at that meeting it was suggested to me by several of the Past Presidents in a friendly way, that I should represent the Society on this occasion. I am particularly pleased that my first visit to America should be practically at the invitation of my professional brethren on this side of the Atlantic.

I thought that as I came from such a distance it would only be respectful to you to give you a somewhat lengthy paper. It will take an hour at least to read it, and I will not, therefore, detain you with any preliminary remarks, but will at once commence with the paper I have brought with me.

The Duties of Professional Accountants in Connection with Invested Capital Both Prior to and Subse- quent to the Investment.

**By FRANCIS W. PIXLEY, F. C. A.,
Barrister-at-Law, Immediate Past President of the Institute of Chartered
Accountants in England and Wales.**

As the representative of the leading Institute of Professional Accountants in the "Old World," I should have liked, in a paper addressed to this first great Congress of members of the profession assembled in the "New World," to have commenced with reminiscences culled from our past history, to have dealt reverently with the memory of some of my predecessors in the presidential chair, and in other ways to have introduced some romance into what must be necessarily, without it, a dry paper. I well know the veneration possessed by your countrymen for old traditions and old memories, and it is a regret that I cannot indulge in recollections of the past.

Much, however, as Americans value antiquities—as is evidenced by your acquisition of works of art of every description from the countries of the Old World—and much as you cherish old customs brought by your ancestors from the mother country, yet you in your inmost hearts are, I am convinced, prouder of the advance your country has made in the past fifty years, and the way in which it has crept up to and gradually surpassed the countries of the Old World in many departments of commerce and finance, than of any exploits in the past of those from whom you may claim descent. For the same reason, I am convinced that the representatives I have the honor of addressing of what is in America, as with us, a comparatively new profession, are better pleased to be pioneers of this profession than to be merely the heirs of recognized forms and customs which they are expected to follow. Tory though I am, I fully sympathize with this sentiment.

Proud as are the members of some professions of their antiquity, of customs carefully preserved although in many instances out of date, yet to assist in the establishment of a new profession, to feel you are one of those helping to form the professional character of those to follow in your footsteps, to be, in fact, one of the fathers of a profession, appeals to me, as I am sure it does to you, more than to merely step into the shoes of those who have gone before, and to follow a beaten path out of which it is unwise to stray.

We—and I am speaking for our professional brethren on the other side of the Atlantic as well as for the members of those Societies forming the Federation under whose auspices is assembled this great Congress—are making this beaten path for others to follow. I am sure you will agree with me that a heavy responsibility consequently rests upon us, as the doctrines we lay down for ourselves to follow must necessarily not only have a great and abiding influence on our successors, but also show the financial and commercial community of the present day whether they can confidently entrust us with the great and important duties we profess to transact, so as to secure for ourselves and our successors that general feeling of confidence

without which no profession can flourish even for a time, much less endure, as we hope ours will, in the ages to come.

Although the profession of Accountancy is comparatively speaking a new one, yet the most important branch of our work has a distinct claim to antiquity. It is certain that for over six centuries the office of Auditor has existed, as in 1299 we find mention of an Auditor of the Accounts of the Corporation of the City of London. In the "Vision of Piers Ploughman," written by Langland, and published in 1377, and in Paston's "Letters," written in 1469, references to Auditors are found; while in Shakespeare's play, "Timon of Athens," the following lines appear:

"If you suspect my husbandry or falsehood,
Call me before the exactest auditors
And set me on the proof."

On a tombstone in the old church of St. Mary, Chesham, Berkshire, is the following quaint inscription recording a death which occurred in 1626: "Here lyeth Richard Bowle, who faithfully served divers great Lordes as 'Auditor on earth, but above all he prepared himself to give up his account 'to the Lord of Heaven, and rests from his torments and labors."

Auditors, however, of those times were not selected from any particular body, and I fancy a very slight knowledge of accounts, or perhaps only an assumed knowledge, was all that was required to obtain the office. This is scarcely to be wondered at when we reflect that even in these practical times the duties of Auditors are frequently entrusted to persons who have given no proof whatever of possessing the necessary qualifications for their duties.

Although lawyers, actuaries and valuers have for long been deemed necessary adjuncts to finance and commerce, yet, strange to say, even in your country professional accountancy is of modern growth. I think I am justified in claiming that it is an importation from the other side of the water; and it was the practical common-sense which distinguishes our fellow countrymen north of the Tweed which first recognized the necessity for the professional accountant.

Our Scottish brethren are about to celebrate the completion of the first half century of the recognition of professional accountancy in the United Kingdom of Great Britain and Ireland, in commemoration of the fact that on the 23d October, 1854, the Society of Accountants in Edinburgh was incorporated by Royal Charter. It is, of course, apparent that accountancy as a profession existed earlier than this, otherwise its members would not have had sufficient influence to obtain a Royal Charter forming themselves into a corporate body endowed with certain privileges. Previous, however, to the granting of the Royal Charter, there was not much recognition or notice taken of the practicing accountants, while from the date I mentioned Chartered Accountants have in Edinburgh held a very high position, not only in the estimation of the commercial and financial world, but also in the social life of the Scottish Capital.

The following year a similar Society in Glasgow obtained a Royal Charter, and twelve years later another Society in Aberdeen was similarly successful. At the present moment all the recognized members of the profes-

sion, whether practicing in Scotland itself or in other parts of the world as Chartered Accountants of Scotland, belong to one of these three Chartered Associations.

Although my paper is not intended in any way to be historical, yet I feel that, having regard to the present occasion, some reference to the origin and growth of the profession in the United Kingdom will not be considered out of place. I will, however, confine myself to a very short reference to this subject, and will content myself by adding that in 1880 various associations of professional accountants practicing in London and some of the principal provincial towns in England were incorporated into one body under the style of "The Institute of Chartered Accountants in England and Wales." This Institute has met with ever increasing success, not only in the esteem of the legal, financial and commercial world, but also in the gradual and steady addition to its numbers. It now contains about 3,200 members, and I am proud that, on the kind invitation of The Federation of Societies of Public Accountants in the United States of America to send a representative to this Congress, they have done me the honor to select me to be their representative.

In order to complete my short statistical statement, I have to add that in 1888 the leading members of the profession in Ireland were incorporated by royal charter under the style of "The Institute of Chartered Accountants in Ireland," and at the present moment the chartered accountants of the United Kingdom are upwards of 4,000 in number, divided amongst the various Institutes as follows:

The Institute of Chartered Accountants in England and	
Wales	3,200 members.
The Society of Accountants in Edinburgh.....	390 "
The Institute of Accountants and Actuaries in Glasgow...	410 "
The Society of Accountants in Aberdeen.....	50 "
The Institute of Chartered Accountants in Ireland.....	70 "

Now, although a large portion of the practice of chartered accountants—in the United Kingdom, at any rate—consists in the holding of certain public offices—such as liquidators, trustees, receivers, administrators, etc.—yet we practically hold all these offices by reason of our special aptitude for investigating accounts, and the greater portion of our work consists in our being professionally employed on behalf of those who are either about to invest their capital, or, having invested it, wish to be informed from time to time as to the financial result of its investment.

Professional accountants acting for investors of capital are either instructed by persons who intend to invest their own capital in some established business or enterprise or they may receive their instructions from those who do not intend to make any investment themselves, but only wish to induce others to do so. In the former case they act for a client who, having had a proposition placed in front of him requiring capital either to develop a new enterprise, or to increase an existing business by means of additional capital, or to replace the capital of a retiring proprietor, so far entertains the proposal that he is prepared to embark in it should the investigation of the accounts bear out the statements made to him. In the latter case, they receive instructions from persons about to float an enterprise

whose object is to induce others to invest their capital on the strength of the profits earned in the past, as certified by the professional accountant. In both these cases a responsibility lies on the accountant, and while in many respects his duties are similar, yet in the second instance they are vastly more responsible.

When acting for a private client the responsibilities of a professional accountant are limited to a great extent by the instructions given him. For example, supposing his client wishes to purchase a business or acquire an interest in one as a working partner, he may, if a capable business man, limit the extent of his accountant's investigation. He may have been long acquainted with the proprietor of the business, and be so thoroughly satisfied as to his honesty as to only require a partial investigation of the accounts; as a result, he may possibly instruct his accountant to accept certain details as correct, and, by taking totals, prepare therefrom a Profit and Loss Account for the number of years he may select, and report to him thereon.

To those unacquainted with the method of preparing Statements of Account this may seem a roundabout way of accepting the Profit and Loss Account and Balance Sheet as prepared for the vendor by his own bookkeeper, but professional accountants are well aware that from the same "Trial Balance" statements of profit and loss may be prepared showing very different results, but without any deception being intended. The bookkeeper of the vendor, who has been in the habit of placing before his employer annual statements showing the result of the business operations, has perhaps proceeded on the same lines year after year, making the same allowances for losses likely to arise on the realization of book debts, calculating for depreciation on plant and machinery the same annual percentage, and in the same manner on some fixed principle arriving at the value of the stock-in-trade. He may possibly, acting on instructions from his employer given to him years ago, have omitted to charge interest on the capital employed in the business, and in other ways have prepared Profit and Loss Accounts and Balance Sheets which, although understood by his employer, might be misleading were they to be accepted by a purchaser or an incoming partner as a basis for fixing the price to be paid for the whole or a share of the business.

When a professional accountant receives limited instructions from a client about to invest his capital he will naturally in his report showing the result of his investigation carefully guard himself by referring to these instructions, and point out what he has omitted to look into, which, had he been left unfettered, he would have deemed it necessary to have investigated. Clients who lose their money have an unfortunate habit of trying to fix the blame on their professional advisers, be they lawyers, stockbrokers or accountants; and as a matter of ordinary precaution reports on investigations of every description, whether the accountant is left free to pursue his own course or is restricted in any way, should be so carefully worded as to give the client no opportunity of being able to prove that the accountant neglected any portion of an investigation necessary to fulfil his duties efficiently.

The responsibility connected with an investigation is, of course, heavier where the client is a man of inexperience, and who, either having capital of

his own or capital which has been found him by his parents or guardians, wishes to venture the same in a business of which he has little or no knowledge, and has subsequently to rely on those he may entrust with the management. The most serious responsibilities, however, in connection with investigations prior to the investment of capital are those where the professional accountant receives instructions from the promoter of an enterprise to be launched as a joint stock concern, the capital of which is to be found by those who may be induced to subscribe the same on the faith of a prospectus supported by his certificate.

Previous to commencing the actual work, there are two most important elements that have to be considered—namely, the promoter of the proposed company and the proprietor of the business whose accounts have to be investigated. Where the promoter has been long known to the accountant, and he has conducted investigations for him on previous occasions which have led to satisfactory results, he need not consider this; but if he is making an investigation for a promoter for the first time, then it is most important that he should make inquiries as to his antecedents. However true it may be that an accountant has to confine himself almost entirely to facts, yet it is most dangerous for him to act on behalf of a really unscrupulous promoter. As regards the proprietor of a business, it is unlikely that he will have met him before, and in this case it is also desirable that he should make some independent inquiries as to his character, as there are risks also in certifying to the profits of a business of an unscrupulous person who may wish to entirely dispose of it. Bearing this in mind, the Accountant should make himself acquainted with the reason for the proposed conversion of the business into a joint stock enterprise, as although there may be very many legitimate reasons—such as an elderly man wishing to relinquish a portion of his labors; the division of a business into a larger number of holdings than can be dealt with in an ordinary deed of partnership; a death, or other family reasons; or for the very legitimate reason of wishing to retire from business altogether—still, experience has shown that many proprietors of declining businesses have taken advantage of the facilities which exist for transferring them to joint stock companies. In many of these cases they have, I regret to state, been assisted by disreputable professional men; but frequently they keep their dishonest intentions to themselves, with the result that entirely innocent lawyers and accountants have been implicated without being guilty of any worse crime than carelessness in not having investigated the antecedents of their clients.

In an investigation conducted under these circumstances, although certain instructions must of necessity be given to the accountant by his client the promoter, the former must to a certain extent, and in some cases to a very great extent, retain in his own hands the decision of a number of points which in an investigation for private clients might be limited by his instructions. I do not, of course, lay down the doctrine that a professional accountant is a guardian of public morals, or has to act with paternal solicitude on behalf of those who may, by means of his certificate, become investors in an enterprise such as I am indicating. All I wish to claim—and I trust you will support me in this—is that, in giving a certificate under the circumstances I am considering, a professional accountant must not consider that

he has done his duty when he has certified as correct a statement or statements of account, which on the ground of arithmetical inaccuracy cannot be assailed. This is a view of a professional accountant's duties which the members of the Chartered Institutes of the United Kingdom would not support for one moment; and I feel sure that on this side of the Atlantic you would not desire to set up a lower standard of professional duty.

The Institute of Chartered Accountants in England and Wales has not, any more than has the governing body of any of the other learned professions, attempted to prescribe rules for the ordinary conduct of its members in connection with professional work; but certain matters connected with the subject of this paper have been brought to their notice from time to time, and, without in any way attempting to speak for the Institute on such an important matter, I will content myself by stating that the leading members of the profession in England have come to the conclusion that it is extremely improper to give certificates for the purposes of influencing the investment of capital under certain conditions, of which I may give the following as examples:

Should it be intended to invite capital for a company formed to take over an existing business, and it is proposed to insert in the prospectus a certificate of a professional accountant, one of average profits may be given where the profits have increased annually during the series of years embraced by the certificate, but it is not considered proper to give a certificate of average profits where the profits have declined. In such cases it is considered essential that the profits for each year must be set out in the certificate, and appear clearly in the prospectus of the company, it being deemed that every intending investor has the right to know before he invests his capital that it is going into what appears, according to the books of the concern, a declining business. In other words, those who are a party to concealing the above facts by giving a certificate of average profits without any qualification are guilty of professional misconduct. Should the annual profits be clearly set out, and the directors give an explanation of the reason of the decline in a paragraph in the prospectus, and the intending investor be so satisfied with this as to invest his money, this does not then concern an accountant who has done his duty. It is, of course, to be understood the accountant has no reason to suppose that the explanation is a false one, as it is not, of course, proper for him to allow his certificate to appear in a prospectus which contains any fact whatever which to his knowledge is untrue or misleading.

In the case of an entirely new enterprise which has only been tested in a small way, and capital is to be invited to practically exploit the process, there will be no objection to the accountant giving a certificate as to the result of the working of the experimental process. It would, however, be extremely improper for him to issue a certificate giving the probable result of the working of this process on a considerable scale by taking into consideration estimates for the probable working expenses of the company, and thus showing that the profits under those circumstances would yield a certain dividend on the capital asked for. The accountant must confine himself to absolute facts, leaving it to the directors to put forward any estimates; and, provided that he has every reason to believe that the directors are making

their estimates in a *bona fide* manner, he cannot object to their making use of his certificate of facts. Although not actually a case in point, it may be interesting to state that it has also been considered most unprofessional for an English Chartered Accountant to give a certificate of profits made by the clients of advertising brokers in connection with their speculations in certain securities. These certificates are made use of to entrap the inexperienced, and as they contain no reference to the losses sustained by these clients, and by other clients gambling in other stocks—in other words, as they do not deal with the whole of the transactions of the brokers with all their clients, but only with certain selected ones—they cannot be looked upon as straightforward certificates, and the use of them is calculated, looking at it from the lowest point of view, to bring the certificates of professional accountants as a class into disrepute.

A professional accountant, before putting his client to the expense of an investigation of the accounts of a concern which it is intended to offer for sale to a public company, should ascertain that the accounts have been so kept that it will be possible for him to give the required certificate when his work is finished. No matter how well the books of a large trading concern have been kept, it is impossible to ascertain the amount of actual annual profit for a series of years if it has not been the custom of the proprietors to have taken a correct account of the stock in trade at the end of each of these years. Instead of being able to certify to the profit of each of the last four or five years, as desired by the promoter, the accountant could not do more than give a certificate of the sales of each year, from which the proposed directors could, if they cared to take the responsibility, state in the prospectus what has been the probable profit on this turnover. In many instances a promoter would not care to run the risk of endeavoring to float a company without a certificate of actual profits from the accountant; and where early in the proceedings the accountant ascertains he will not be able to certify as required, he should at once inform his client, and give him an opportunity of considering his position.

I have mentioned these few examples with the object of giving what I know to be the views of some of the leading professional accountants in England as to their moral responsibilities, and I feel sure that you will not disagree with them, or wish for a lower professional standard to exist on this side of the Atlantic.

In an address to such a distinguished gathering of trained accountants I shall not, of course, presume to indicate how, so far as details are concerned, should be conducted an examination of the accounts of any concern for the purpose of ascertaining as to whether or not it may be a desirable one for the investment of capital; but on behalf of those of less experience, and for students, I may state that so long ago as February, 1890, I had the honor, on the invitation of the Chartered Accountants Students' Society of Edinburgh, and the Glasgow Institute of Accountants' Debating Society, to read a paper on consecutive evenings in Edinburgh and Glasgow, on "The Investigation of Accounts of Commercial Undertakings Previous to their Conversion into Public Companies," in which paper I went very fully into the details of the conduct of an examination of this nature. This paper was

published,* together with a number of my other addresses, in 1897, and can be obtained by students and others who care to study such details.

You will, however, I feel sure, not consider me guilty of presumption in referring to a few special items intended more to illustrate the principle on which investigations of this nature should be conducted than an attempt to in any way teach those whose experience may be as great, or even greater, than my own.

In the first place, I cannot impress upon you too strongly the desirability of taking very full notes, not only of the details of the investigation itself, but also of interviews with your client, the directors of the proposed company, the solicitors, valuers, and anyone else concerned. These notes will, of course, include instructions received, any suggestions you may make thereon, and generally any advice you may deem it desirable to give. It is possible these notes may never be required, but it is quite possible they may be of the greatest importance in the future, more especially if later on the enterprise may prove unsuccessful, and you are called upon to explain your connection with it previous to and at the time of its inception.

A complete list of the books of account kept by the proprietor of the business should be furnished to the accountant previous to his investigation being commenced (and this he should, of course, retain, making note of those he examines), and a list of any papers made use of by him during his investigation should also be preserved.

Should any attempt be made to deceive the investigating accountant, it will probably be in one of the following ways:

(1) The omission of Liabilities which ought to be charged against the Profit and Loss Account.

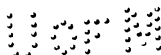
(2) The inclusion amongst Revenue of Income not strictly applicable to the period under review.

(3) The over-valuation of unquoted securities, with the consequent result that certain losses are improperly omitted to be charged against the Profit and Loss Account.

(4) The non-allowance for depreciation of fixed or partly fixed Assets, or for losses likely to be incurred on the realization of liquid Assets.

As regards the omission of liabilities, the difficulties of detection where such omissions are made deliberately may prove quite impossible to grapple with. In an investigation I conducted many years ago, the manager of a provincial fire insurance company conceived the idea of making it into a larger concern, with its headquarters in London, and at the same time increasing its subscribed and paid-up capital. As a result of my investigation I reported favorably, the scheme was carried out, and all went satisfactorily for nearly a year, when I was requested to meet the board of directors, when they informed me that they were utterly unable to understand the extraordinary number of claims which were coming in from a certain foreign country, and they gave me instructions to make a complete investigation of the affairs of the company. As a result, it was discovered that, previous to my investigation, arrangements had been made with persons abroad to hold back certain claims in respect of fires which had taken place, on the ground

* "The Profession of a Chartered Accountant and other Lectures," London: H. Good & Son, 1897.



that they would be unable to be met, or some such reason. I can only imagine the claimants were told of the proposed scheme and consented to be a party to what followed, for claims in respect of fires which took place before the incorporation of the new company were brought forward as new ones. At the time of my first investigation there was not a single document in the office, and nothing in the books of account or letter books, which could show that such claims had ever been made, and the directors, fortunately for me, being men of business, never attempted to fix the slightest blame upon me for not having discovered what was practically an impossibility. At the same time, it was a lesson to me, and I now make use of it as an example of the care that has to be exercised by an accountant in investigations of this nature. Intentional omissions of this sort can, of course, be occasionally detected by comparing transactions of former years with those of the years under review; and, of course, the greater the experience an accountant may have of the accounts of businesses of a nature similar to the one he is investigating, the more likely he is to detect any omissions. In every investigation of this kind, it is distinctly part of the accountant's duties to endeavor to compare the percentage of gross profit made on the sales or turnover of a business for a period of years; and if the gross profit for the period he is asked to certify is above the average of preceding years, and the reason cannot be satisfactorily explained, then it is most necessary that he should endeavor by any means in his power to ascertain that all the purchases and charges have been brought into account. This may require great tact and judgment, as he must pursue his inquiries without any person either connected with or outside the business having any ground for suspicion as to why the special inquiries are being made.

The inclusion in the revenue of income not strictly applicable to the period under review is also another method by which the profit of a business may be unduly swelled; and where the profits of several years are set out for the purpose, perhaps, of showing that the business has been an improving one, it is most important that the certifying accountant shall ascertain that the actual income of each year is brought to credit in its proper year. Where also the whole of the business is not to be sold, and part is to be retained in the hands of the existing owner, then, of course, care must be taken that the certified profits do not include any portion of the income which appertains to that part of the business not to be acquired by the purchaser.

The question of there being any over-valuation of assets, which might affect the Profit and Loss Account, is also of importance, Stock in Trade in the case of a Trading Company, Land or Houses in the case of a Property Company, or Investments in the case of a Finance Company, requiring special attention. The value placed upon the Stock in Trade in a Profit and Loss Account and Balance Sheet is at all times an unsatisfactory item from an accountant's point of view. When certifying as an auditor the accounts of a joint stock company registered under the English law an accountant is usually careful to explain in his certificate or report that the value of the stock has been taken, either at cost price, or that the value is certified to by some official of the company; but even then he deems it his duty to satisfy his own mind that the amount taken credit for is a proper

one. In the case of certifying as to profits for the information of an intending investor, more care than this is requisite, as the accountant is here dealing with the stock in trade, not of those concerned in the future of a company, or to a certain extent responsible to a body of existing shareholders, as are the directors or managers, but he is dealing with the stock in trade of a concern which is about to pass wholly, or, at any rate, partly, into the hands of strangers, and he has to do his best to ensure that the figure he is going to make use of will not unduly swell the profits he certifies. As already stated, however, I am not attempting here to teach you, but merely to call your attention to points demanding special inquiry, and I will not pursue this point further. The same remark applies to Investments and property of other description, which may be brought to credit in a Balance Sheet, and consequently affect the Profit and Loss Account.

The last of the four points referred to by me in connection with which an investigating accountant may be intentionally deceived is the non-allowance for depreciation of fixed or partly fixed assets, or for losses likely to arise on the realization of liquid assets. It is now generally admitted, not only by professional accountants, but by the financial and commercial world generally, that depreciation of wasting assets is as much a charge against revenue before arriving at the net profits as is money expended in wages, rent, or any other charges connected with a business. At the present time there is no fixed scale laid down for arriving at the proper amount to be charged for depreciation in respect of the many varieties or classes of wasting assets which can be met with. There is, however, one exception—all are agreed that in the case of leasehold property of every description there must be an amount charged periodically against the value of the lease so that at its expiration the capital money expended on its original purchase must in some way or other have been made good. Here again, however, there is a difficulty, as during the course of a long lease it by no means follows that Auditors and their clients will agree as to the amount to be written off for each individual year of the lease's existence. When an Auditor wishes to make this a fixed sum, extending over the whole course of years, he is frequently met with the argument, which in many cases is a perfectly correct one, more especially in a city like London, and other centers where property is gradually increasing in value, that a lease after many years has expired is worth more than it was when originally purchased. In the case of deciding the amount to be written off leases, nearly every individual lease has practically to be separately dealt with.

As regards Plant, Machinery, Fixtures and Assets of this description, there is no fixed rule, and in an investigation such as we are considering, the accountant must satisfy himself to the best of his ability that a full amount has been charged against the Profit and Loss Account, having regard to the special nature of the assets he may have to deal with. As a rule, when a business having assets of this description is taken over by a company a valuer is employed, who gives a certificate to be made use of in the prospectus, and the accountant must make as much use as possible of the valuer's knowledge in fixing the depreciation to be charged.

As regards loss likely to arise on the realization of liquid assets—such as Book Debts, whether on Bills Receivable or on open account, and on bal-

ances in the hands of Agents or Travelers—the professional accountant can only be guided by a careful examination of the age of these debts, and the experience of the past as to the manner in which they are usually discharged, and in the case of debts of any special magnitude perhaps by means of a special inquiry.

You will notice that in these remarks I have referred solely to assets from the Profit and Loss Account point of view, as it is very seldom that for prospectus purposes the accountant is required to certify beyond the profit earned. Balance Sheets, as a rule, are not referred to, in consequence of the proposed alteration in the capital, and the fact that very frequently many of the assets—such as book debts, investments, or cash—are not taken over. Those assets taken over are, as a rule, not acquired at the price they appear in the books, but on the valuation of the valuer already referred to.

It frequently happens that interest on loans forms a considerable portion of the charges against the profits of a concern proposed to be converted into a joint stock company; in which case the accountant may be asked to omit this interest and add it to the profits certified, on the ground that the new company will have sufficient capital to render loans unnecessary in future. Now, to this request no exception need be taken, provided the accountant certifies that the profit is arrived at before such interest is charged, and has in addition satisfied himself that the capital proposed to be offered for subscription will be sufficient for the future working of the business on the same scale. To give his certificate without fully ascertaining that this will be the case would be most improper, and render him liable to be accused of participating in a fraud on intending subscribers.

When the accountant has completed his investigation on behalf of a private client, and has handed to him his report, his work is practically completed, and his client can come to a decision as to whether he will or will not invest his capital in the undertaking; but when the accountant has made his report to the intending promoter of a company to be formed to acquire the concern whose accounts he has just investigated, it by no means follows that his work is over. He may be prepared to certify to a certain amount of profits, but these profits may not be sufficient to show the amount requisite to pay the minimum dividend on the capital of the proposed new company, which, in the opinion of the promoter, he must put forward in order to obtain the requisite capital. It is in a circumstance like this that strength of character is required, as great pressure is frequently put upon the accountant to induce him to alter his figures, and show at least the minimum profit required by the promoter to make his prospectus attractive. Various arguments are adduced—such as that too much allowance has been made for loss likely to arise on realization of debts; that too much depreciation has been written off the leases or plant and machinery; or that certain expenditure has been charged against the last year's profit which might properly be spread over a term of years.

Now, it by no means follows that some of the arguments are not sound, and it is quite possible the accountant may see his way to amend some of his figures, but he must only do so on being absolutely convinced of the propriety of so doing, and he must not yield to persuasions based on any other ground. One of the most common arguments put forward by a promoter

in this unpleasant situation is that unless the accountant adopts his view the company cannot be launched, and all the expenditure which he has incurred to date, or for which he has made himself responsible, will be lost. I need scarcely add this is absolutely not worthy of any consideration by the accountant, who, although paid by the promoter, has not him to think of. The accountant's sole duty is towards those unknown persons who might be induced by means of his certificate to embark their capital in a venture which they would not do were the accountant to remain firm, and resist any temptation which may be offered to him to give a certificate which he does not consider true and unimpeachable in every respect.

Before any prospectus inviting capital containing a professional accountant's certificate is issued, it ought to be approved by him in its entirety, so that he may satisfy himself not only that his certificate is correctly inserted, but also that no unwarrantable deduction is made from its contents which might mislead an intending investor.

I will now proceed to deal with the second part of my subject—namely, the duties of professional accountants towards the owners of invested capital; in other words, the duties of Auditors.

Although, as previously stated, the duties of professional accountants in the United Kingdom embrace those appertaining to the holding of a number of official appointments, yet it is concurrently with the rapid increase of joint stock enterprises that the profession has advanced, and the real mainstay of professional work is the audit of accounts of companies and associations registered under the various Companies' Acts. At the same time there is also, I am pleased to add, a gradual and steady increase in the number of private individuals, firms and others who place not only their business books, but also those relating to their private affairs, in the hands of Auditors. It has also become the almost invariable practice for executors and trustees under wills to place the books containing the administration of the estates of their respective testators in the hands of professional accountants, not only in their own interests, but for the satisfaction of those who are beneficially interested in the testator's estate. Indeed, it was decided by our English Law Courts as long ago as 1818 that an executor or trustee may, if the accounts be complicated, employ a professional accountant to adjust and settle them, and to charge the trust estate with the fee under the head of "Expenses."

In 1844 the British Parliament passed an Act providing for the registration, incorporation and regulation of joint stock companies. This was practically the first Joint Stock Companies Act, as previous to that date joint stock associations were, in England, subject to the law which governed ordinary partnerships of two or three persons. It contained very full clauses, providing for the proper keeping of accounts, the balancing of books of account, the preparation of a Balance Sheet and the audit of the same. From that period, however, up to the present time, notwithstanding the fact that later Acts, including the Companies Act of 1862, which was the first Act constituting what is now known as limited liability, omitted all reference to Auditors, with the exception of some clauses contained in a schedule to the Act, which was only binding on those companies registered without special articles of association—the accounts of joint stock companies have

always, as a matter of practice, been audited before being placed before shareholders at their annual or periodical meetings.

It will not be surprising, however, to those who are aware of the very slow progress innovations of any kind make on the other side of the Atlantic to learn that although it is now exactly sixty years ago since Auditors of companies were recognized, and were, in fact, for a short time, compulsorily enforced on companies by legislation, yet at no time have any qualifications for holding the office ever been required, except perhaps the doubtful, if not actually improper, one of their being shareholders. In those cases where this absurd requirement was imposed, it necessarily followed that in order to obtain an Auditor the list of shareholders had to be scrutinized until the name of one known personally to the directors, or perhaps the secretary or the manager, was discovered. The person thus selected was asked to undertake the duties without any effort whatever being made to ascertain if he was possessed of a single qualification for his office; and many of you will perhaps be surprised to learn that at the present moment no opposition would be raised, or, in fact, could legally be raised, by the Board of Trade, or any other English Government Department, were the accounts of our largest enterprises to be entrusted to the audit of a person unacquainted with the most elementary knowledge of bookkeeping and accounts. In making this statement, I do not put forward a doctrine that a perfect knowledge of account keeping necessarily qualifies the possessor to efficiently perform the duties of Auditors, for while it is absolutely necessary that an Auditor should be possessed of a complete knowledge of bookkeeping, both generally and as applied to the varieties of businesses whose accounts he has to audit, it does not follow that a man capable of keeping a set of books, or superintending the bookkeeping staff of the largest commercial concern, possesses the qualifications necessary for an Auditor.

In the same way that a great painter, sculptor, or writer need not be a good critic, so in the same way an experienced bookkeeper might utterly fail in the performance of an audit of a much less important concern than the one whose affairs he is entrusted with the duty of recording. An Auditor is a critic, but, different to the painter, sculptor or writer, it is absolutely necessary he be capable of performing himself the work of those he has to criticize, and of taking out and agreeing a Trial Balance, and preparing therefrom the Profit and Loss Account and Balance Sheet. He must at the same time be equally capable of reversing the operation and of dissecting and analyzing accounts placed before him for his approval and certificate.

Legislation in England having utterly failed to deal with the audit of accounts of public companies, the common-sense of the business community has fortunately rectified the deficiency. About the time of the heavy commercial depression caused in 1866 through the failure of some of the largest financial institutions in London, followed by many in the provinces, causing wide-spread misery amongst investors, there commenced the practice of replacing the Shareholder Auditor by the Professional Accountant. The weeding out of the amateur auditor proceeded slowly, but by the time the Institute of Chartered Accountants in England and Wales was incorporated by Royal Charter, a large proportion of the joint stock banks, discount houses and other financial institutions had professional accountants for

their auditors. This praiseworthy practice gradually spread to the private banks, several of which have in London existed for over 200 years. About a dozen years ago three of the oldest of these private banks, after consultation as to the advisability of so doing, set the example, which was followed by many others, of placing their books voluntarily in the hands of Chartered Accountants, so that they might present an audited statement of assets and liabilities to their customers. Notwithstanding this, there are, I regret to state, at the present moment a few joint stock banks, insurance companies and other corporations which still continue to elect year after year shareholders as auditors, without having any regard to their qualifications.

The duties of an Auditor vary in Great Britain, as doubtless they do here, according as to whether his client is a private one, free to give his own instructions, or whether the audit is performed for a body of shareholders in a joint stock company, and consequently under statutory powers, which throw the onus entirely on the auditor of deciding as to what details to be performed in the course of the audit are or are not necessary.

When an auditor receives his instructions from what I have called a private client, he should, if he be of opinion that they are inadequate, so inform his client, and thus give him an opportunity of amending them; as to perform the audit strictly according to instructions, knowing that it would be wholly, or even partly, useless to his client, is, I am sure you will agree with me, unworthy of any professional man.

It has always been traditional in every profession practiced in Great Britain that in giving advice to a client on any matter that that advice shall be given entirely in the interests of the client, and without any regard to the consequences such advice may entail on the professional adviser. When, therefore, a professional accountant receives instructions to perform an audit in such a manner as he feels will be insufficient for the purpose, and he fears that his suggestions, either on the ground of additional expense or for another reason, may lose him his client, this should not weigh with him for a moment.

Again, when having undertaken an audit for a fixed fee the auditor finds, after having made some progress with the audit, that the time it will occupy will exceed that which he anticipated when the fee was fixed, it would not merely be unprofessional, but dishonest, to omit any portion of the original scheme of audit if necessary to perform it in an efficient manner. He may, of course, make representations to his client as soon as he becomes aware of the inadequacy of the fee he is to receive, or wait until the audit is concluded; but should he adopt the former plan and the reply is unfavorable, his duty to his client is clear, and the audit has to be done as thoroughly as if full profit charges were to be received.

In auditing the accounts of a joint stock concern the auditor is unfettered by instructions as to how he is to perform his duties. The responsibilities, however, are much heavier than when acting for a private client, as the shareholders look to him to not merely certify to the correctness of the profits out of which their dividends are declared, but also the correctness of the Balance Sheet, which shows the financial position of their invested capital in the concern, so far as the figures representing the assets in the books

of account are concerned. Before, however, I refer to the Balance Sheet, I must make some remarks on the principles of an audit without, however, I trust, having even the appearance of attempting to teach you the ordinary duties of an Auditor, with which you are as fully acquainted as I am.

The observations I have already made as to the manner in which an accountant investigating the accounts of a concern previously to the investment of capital may be deceived apply equally to the audit of the Profit and Loss Account of a concern in which his clients' capital is already embarked. An Auditor has, therefore, always to be on his guard; but, at the same time he is not placed in the unpleasant situation of having to look upon everyone he comes across with suspicion. I am not acquainted with the law bearing upon the accounts of American companies and their audit, but I believe there is little if any difference between the American and English law in this respect, and that your Judges would take the same view as have ours.

In a case which came before the English Courts some years ago, the counsel on one side, in the course of their arguments, endeavored to throw upon auditors duties of such a nature which, if they had been sustained, would have rendered the office a most perilous one to have subsequently undertaken. Fortunately, however, the Court of Appeal took what may be called a practical and common-sense view, as well as one which, no doubt, was strictly correct according to law. In the course of the judgment it was stated by one of the Judges:

"An auditor, however, is not bound to do more than exercise reasonable care and skill in making inquiries and investigations. He is not an insurer; he does not guarantee that the books do correctly show the true position of the company's affairs; he does not even guarantee that his Balance Sheet is accurate according to the books of the company. If he did, he would be responsible for error on his part, even if he were himself deceived without any want of reasonable care on his part, say, by the fraudulent concealment of a book from him. His obligation is not so onerous as this. Such I take to be the duty of the Auditor: he must be honest—*i.e.*, he must not certify what he does not believe to be true, and he must take reasonable care and skill before he believes that what he certifies is true. What is reasonable care in any particular case must depend upon the circumstances of that case. Where there is nothing to excite suspicion very little inquiry will be reasonably sufficient, and in practice, I believe, business men select a few cases at haphazard, see that they are right, and assume that others like them are correct also. Where suspicion is aroused, more care is obviously necessary; but still, an auditor is not bound to exercise more than reasonable care and skill, even in a case of suspicion."

Again, in another case one of the Judges of our Court of Appeal said: "Auditors must not be made liable for not tracking out ingenious and carefully laid schemes of fraud when there is nothing to arouse their suspicion, and when these frauds are perpetrated by tried servants of the company, and are undetected for years by the directors. So to hold would make the position of an Auditor untenable."

At the same time, it has also been held by a judge, now a member of our Court of Appeal, that "it is the duty of an Auditor of a company's accounts not to confine himself to verifying the arithmetical accuracy of the

'Balance Sheet, but to inquire into its substantial accuracy, and to ascertain that it contains the particulars specified in the articles of association, and is 'properly drawn up so as to contain a true and correct report of the state of 'the company's affairs."

Again, another Judge of the Court of Appeal said: "The Auditor's 'business is to ascertain and state the true financial position of the company 'at the time of the audit, and his duty is confined to that. But then comes 'the question: How is he to ascertain that position? The answer is: By ex-'aming the books of the company. But he does not discharge his duty 'by doing this without inquiry, and without taking any trouble to see that 'the books themselves show the company's true position. He must take rea-'sonable care to ascertain that they do so. Unless he does this, his audit 'would be worse than an idle farce."

Now, although these opinions were given in delivering judgments after legal arguments had been heard on both sides, I do not think that any practical man can disagree with or even cavil at any of the doctrines here laid down. If professional accountants do not admit that their duties carry with them great and important responsibilities, the profession will never take the position in the eyes of the financial and commercial world we who have taken the trouble to attend this conference evidently aspire to its holding.

It has long been recognized by professional accountants that it is impossible in the case of company audits for the Auditor to personally perform all the details of the audit—such as the calling over from one book to another, the examination of vouchers, and, in fact, the ordinary checking work. This has also been understood by the financial and commercial world, and has lately been recognized by the English Judges. The doctrine has frequently been propounded that it is better to employ a young accountant who can do the whole of the detail himself, and devote all his personal time to an audit; and in our profession, like in every other profession, there is work which can be done equally well by a young practitioner as by one of more experience. But in the audit of the accounts of large companies many points arise which require considerable experience at times to deal with; and in the same way that as persons in heavy legal cases employ lawyers of eminence, so those who employ professional accountants in large practice obtain the benefit of their experience, while the managing clerks in their chambers are as fully experienced as those newly admitted practicing on their own account. You, of course, understand I am saying nothing to the disadvantage of those just commencing their career, but am only making these remarks in consequence of the mistaken idea that exists in certain minds that the profession of accountancy can be learned in a short time, quite forgetting that when the English and Scottish Institutes received their Charters it was considered necessary to enforce a long period of apprenticeship previous to the reception of the certificate of practice.

For practical purposes an audit may be divided into three parts—namely to guard against (1) errors of omission, (2) errors of commission and (3) errors of principle. With regard to errors of omission, I have already, when speaking of investigations, referred to those of a nature which it is almost impossible to guard against; but with reference to the ordinary work of an audit, it is most desirable that entries in the cash book, as well as in

other books of account, should be checked as far as possible from documents obtained from independent sources, in order that the auditor may be satisfied that the company is properly charged with all cash received and liabilities incurred. In other words, it is not sufficient for an Auditor to take for granted that the income of a company has been brought into account, and that his only duty is to satisfy himself that it has been expended in the manner indicated in the accounts and according to law.

Errors of commission may be either accidental or intentional. As regards the former, these are usually discovered by the mere mechanical process of checking the items of one book with corresponding items in another until carried into the ledger. As regards intentional errors of commission, experience alone can detect them. Nothing but practice can enable an Auditor to deal effectually with those who are intentionally trying to deceive him.

Errors of principle are frequently found in Statements of Account placed before an Auditor for certification without there necessarily being any attempt whatever to deceive him, although, of course, many such attempts are at times made, in order to make the profits appear better than they really are. Expenditure which ought to be charged against the revenue for the year is frequently carried to Capital Account, an attempt being made to justify its inclusion there on the ground that, although it may not be represented by any asset, the concern will have the benefit of it for many years to come. Questions also connected with depreciation come under this heading, as does also whether or no investments have been made in legally authorized securities.

In the audit of the first accounts of a newly registered company, it is very important that all the transactions connected with the issue of the share capital should be thoroughly examined, and it is the duty of the Auditor to ascertain that neither the share nor loan capital has been issued in excess of the amount authorized under the legal constitution of the company. It has long been our practice on the other side of the water not to accept bank pass books as a proof of the correctness of balances at bankers', but to obtain from bankers special certificates as to balances standing to the credit of their customers at the close of business on the days to which the accounts are made up. Cases have been known of false pass books having been prepared for production to auditors. It is also our practice, in vouching payments of every description, to have produced to us the original receipts, or else to state the reason why any have not been shown to us, so that our clients may determine as to whether or no further evidence shall be called for.

In dealing with the duties of the professional accountant previous to the investment of capital, I pointed out that it is not usual for him to give a certificate beyond that of the profits for the period selected by the promoter, or perhaps the directors, of the proposed company. In the case of an audit a Balance Sheet has also to be certified. Now a Balance Sheet is a document very much misunderstood by the general public. Their difficulty is one with which I have much sympathy, but, at the same time, I do not see any way of suggesting a remedy, except that it should never be referred to as a Statement of Liabilities and Assets. In the case of banks and a few other concerns this title is correct, but in the majority of companies a Balance Sheet is nothing more than is indicated by its title—namely, a sheet

or collection of balances—and is, as we all know, a statement in an abstract form of the debit and credit balances of the ledgers, after the elimination of such balances as have been transferred to the Revenue or Profit and Loss Account.

As regards the debit side of a Balance Sheet, or the liability side, as it is frequently called, the only fact which appears to puzzle shareholders is that it includes their capital, amounts placed to reserve, and unappropriated profits; but, as regards the credit side, which is so frequently called the asset side, it is exceedingly difficult to make shareholders understand that the values placed against the items are merely those of the books, and that it does not necessarily mean that their commercial values in any way approach the figures set out. It is, however, the recognized duty of the Auditor in dealing with certain assets—such as Investments, Debtors, and Cash in hand—to satisfy himself that the values placed upon them are really their commercial value; but when we come to Goodwill, Land, Buildings, Patents, and even Stock in Trade, it very seldom happens that the figures are such as would be obtained were the property submitted for sale. This is always so difficult to explain to a meeting of shareholders when questions are asked, and more particularly to a meeting of shareholders of a company that has gone into liquidation, when they learn, as they frequently have to do, that the assets are not expected to yield a quarter, or even a tenth part, of the amounts taken credit for in the last audited Balance Sheet of the company.

As regards Goodwill, there is great divergence of view as to how it ought to be treated in the accounts, especially in those cases where there has been a great falling off in the business of a company. Some accountants are strongly of opinion that in these cases Goodwill should be gradually written down until it reaches a figure more commensurate with the company's reduced circumstances. This would in many cases cause an entire suspension of the payment of dividends, and is entirely opposite to the views of most professional accountants. As, however, the present law of England does not require this diminution of Goodwill to take place, these more drastic views are not likely to prevail. In a case which came before the English Law Courts in 1895 it was decided that the Goodwill of a trading company is fixed capital, and in ascertaining profits it was not necessary to make good any depreciation in respect of it.

There are also conflicting views as to the way in which mortgaged property should be dealt with in Balance Sheets. I am strongly of opinion that in every instance a mortgaged property should not be included in the credit side of the Balance Sheet at its full value, and the amount due to the mortgagees included amongst the liabilities, but that the credit side of the balance sheet should only contain the balance between these two amounts. I admit that there is a difficulty in dealing with mortgaged property in this manner when debentures constituting a floating charge on all the assets of the company have been issued; but where property is specifically mortgaged, I am strongly of opinion that the course recommended by me should be followed.

There has of late years been a great increase in Great Britain in the registration of mining companies, and there has doubtless been a similar increase in the United States. In connection with the accounts of such

companies there is frequently considerable difficulty in deciding upon the correct amount to charge against the Profit and Loss Account in respect of expenditure on development of the mine, and consequently the amount to place to Capital Account. Capital is frequently expended which can only be of use for a few years, and which, therefore, ought to be charged entirely against the revenue of that period, so that the expenditure gradually disappears from the periodical Balance Sheets, while all other capital expenditure should be so treated as to allow of its entire extinction at the expiration of the lease under which the mine is worked. It would be well if the accounts of mining companies were compulsorily prepared on some scientific basis of this sort, the engineers in charge being responsible for the apportionment.

Auditors, moreover, ought to be allowed to consult, at the expense of the company, engineers and valuers in connection with certain items in Balance Sheets, such as "Works in progress" or "Stock in trade," as it is impossible for an Auditor to have a practical knowledge of the value of assets of this nature.

Many persons consider that the duties of Auditors of companies are toward the shareholders for the time being, who have a right to the full profits earned during the actual time they are holders of their shares. If, of course, the statutes of a company provide that each year the profits of the year shall be divided amongst the shareholders, then perhaps this view is correct; but this is very rarely the case, the distribution of profits of companies being in Great Britain left to the discretion of the directors. I hold the view that the duties of Auditors of a company are to the company as an institution, and not to its individual shareholders; consequently, I am of opinion that what are known as "secret reserves" are right and proper, and tend toward the maintenance of the company as a permanent institution, and that, in fact, without these secret reserves it is quite impossible, having regard to the fluctuations of both financial and trading operations, for any company to exist beyond a very limited period. At the same time, these reserves must be honestly made and in the interests of the company. For directors to create secret reserves with the object of withholding profits legitimately earned from distribution to the shareholders, so as to induce them to dispose of their holdings and acquire such holdings for themselves, is as flagrant an act of dishonesty as can be conceived; and should Auditors have any reason to believe that reserves are being created through improper motives they should protest against this, and, if necessary, so report to their shareholders. When, however, reserves are made *bona fide* in the interests of the company, then—although the Auditors may consider them beyond what may be actually required—they are, in my opinion, justified in passing them without comment, knowing that in so doing the financial position of the company will be strengthened.

I will not, however, go further into details connected with an Auditor's duties. My only object in referring to those points I have mentioned is that it may perhaps lead later on to discussion, and consequently to some practical results.

And when an Auditor's duty has been completed, what is it that has really been aimed at? He has by means of his own labor, and that of his clerks, done a certain amount of mechanical checking, and looked into and

settled certain questions of principle; he has satisfied himself that he has acted according to the general law of the country, read in combination with the special law relating to each audit, such as a Deed of Partnership or the Statutes of a Company. In other words, he is satisfied he has obeyed the law, and consequently has nothing to fear should his client hereafter suffer some loss for which he might endeavor to make his professional adviser responsible. But is this enough? I think you will agree with me that to perform his duty legally, so that he cannot be assailed, is not the sole aim of an Auditor, but that he has a much higher one.

He must have so conducted his audit as to be satisfied in his own mind that the accounts he has certified are not merely correct according to law, but that those who read his signature can thoroughly rely on the accuracy of the statements above it. He must also feel that there is not concealed under any heading a single fact which ought to be known to his clients, and which, if known, would cause them to take a different view of the position, and, if shareholders in a company, might induce them at the general meeting at which the accounts will be submitted for their approval to refuse to pass them.

An Auditor who has not the courage or honesty to stand up against those who submit accounts for his examination which are not entirely honest cannot shield himself by means of a remark in his certificate which if noticed by an intelligent shareholder might put him and others on inquiry. To quote again from a judgment of one of our English Judges, "A person 'whose duty it is to convey information to others does not discharge that 'duty by simply giving them so much information as is calculated to induce 'them, or some of them, to ask for more. Information, and means of information, are by no means equivalent terms. . . . An Auditor who gives 'shareholders means of information, instead of information, respecting a 'company's financial position does so at his peril, and runs the very serious 'risk of being held judicially to have failed to discharge his duty."

Honest and straightforward dealing has always been a characteristic of the Saxon race. Since professional accountancy has been established in Great Britain and Ireland there has been inculcated upon students, both in lectures and every department of their studies, the necessity of being straightforward in their dealings with their clients, and I feel sure that you on this side of the Atlantic are taking and will continue to take the same line.

I fervently trust that one of the results of this great Conference in which, thanks to your hospitality and to the kindness of my own Institute, I have been enabled to take a part, will be the elevation of the profession in the eyes of the world, and that the professional accountants of the United Kingdom and the United States will work together, not only for mutual advantage, but for the benefit of those who on both sides of the Atlantic may rely on their professional assistance. In the words of one of your great poets, John Greenleaf Whittier:

" 'Thicker than water,' in one rill

Through centuries of story

Our Saxon blood has flowed, and still

We share with you its good and ill,

The shadow and the glory."

HARVEY S. CHASE.—I should like to move a vote of thanks by the Congress of Accountants to Mr. Pixley for the paper he has so excellently prepared, and to which we have listened with great attention, and which we shall study with very marked advantage in the future.

(Motion seconded, and a rising vote of thanks is unanimously tendered Mr. Pixley.)

MR. PIXLEY.—Mr. Chairman and Gentlemen: I am sure I am exceedingly obliged to you for your very kind resolution thanking me for the paper I have just read to you. The moment it was arranged that I should come over here, the preparation of that paper was begun. I was afraid that in a few cases perhaps you would think I was attempting to teach you your duties. I hope you will merely look upon them as points to be considered, and which I think must necessarily have been in a paper of that sort.

I thank you very much for the very kind way in which you have rewarded my efforts. (Applause.)

CHAIRMAN.—As announced yesterday afternoon, a change in the programme has been made by which the second paper for this afternoon has been deferred until to-morrow morning, and the paper for to-morrow morning is brought forward and will now be read.

The development of modern times and the tendency towards life in cities have brought about new conditions, some of which are worthy of careful study by public accountants. One of these is in the line of the paper that is to be read this afternoon.

The title of this paper is "The Importance of Uniform Practice in Determining the Profits of Public Service Corporations Where Municipalities Have the Power to Regulate Rates." The paper has been prepared by a gentleman who has had considerable experience in this field of accounting and who has devoted careful thought to it.

I may also add that he is one who has taken a very deep interest in everything that tends to the best life of the profession. Seven years ago, when the Pennsylvania Association was organized, at the first meeting of the accountants, held in the City of Philadelphia, he was present, and he has been an enthusiastic worker in the Association since that time. Two years ago, when the Federation was being discussed, he was elected as one of the delegates to the first Convention at Washington. He has been active in all that the Federation has done; he has served for two years as its Treasurer

and has given freely of his best thought and effort to the promotion of its work.

I now take pleasure in asking Robert H. Montgomery, C.P.A., of New York City, to read the paper which has just been announced.

The Importance of Uniform Practice in Determining the Profits of Public Service Corporations Where Municipalities Have the Power to Regulate Rates.

By ROBERT H. MONTGOMERY, C. P. A.

Attorney-at-Law, New York City,

Of Lybrand, Ross Bros. & Montgomery, Certified Public Accountants.

There is a growing tendency in the United States toward municipal ownership of all public utilities, and, while this desire on the part of certain zealous advocates extends to almost every industry which might by any stretch of imagination be called public, the more general aim embraces only those utilities which affect most vitally public health and comfort.

In a recent editorial of *The Commoner*, Hon. William Jennings Bryan said:

"Private contracts for water, lighting and street car facilities have been the fruitful source of municipal corruption, and there is no solution of these municipal problems that does not involve municipal ownership. The progress made in this direction in European cities shows what can be done, and it is only a question of time when in each city in the United States the people acting through the municipal government will do for themselves, without the intervention of corporations, that which is now done at greater expense by private corporations."

This is not quoted as being authoritative, but as a good illustration of one kind of popular agitation which is bound to affect public sentiment.

Politicians usually consider it unsafe to array themselves against municipal ownership, and in many local campaigns it is the most popular issue.

In numerous cities where private corporations have been specifically invited by the authorities to build plants, perhaps during early and struggling days before credit had been established, later generations frequently attempt to secure possession or control of the enterprises. Natural growth has changed conditions; the uncertainties and hazards of the early venture have been forgotten, and the only thing now apparent is the prosperity of the Company which arouses a feeling of envy in the minds of those who believe that its acquisition by the city would result in personal benefit, or political advancement.

If the credit of the municipality be strong enough perhaps they wish to build plants of their own and crush out the existing Company rather than purchase it at a valuation considered fair by the private corporation; but the desire to build or purchase is not always sufficient to carry out the

project, or, no matter how strong, financial resources may not permit, and consequently there is called into play the power of regulation, which may be a more valuable asset to a municipality than the physical ownership of the utilities.

This right is called the police power and is inherent in all sovereign bodies; some legal writers say that it is undefinable, but it is sufficient for us to know that under it plenary powers exist to regulate all affairs relating to public health and comfort.

The Supreme Court of the United States has decided that

“Where a business is impressed with a public interest the legislature has the right to fix the maximum charge,”

and the legislature can, in order to meet local conditions, delegate this right to municipalities.

Several of the States have expressly delegated this power, and in others the power of regulation seems to exist without any specific legislation.

Certain advocates of municipal control have, through the proper authorities, availed themselves of this right, and as the results of their success in reducing rates are usually published broadcast, others are encouraged to follow their example, and in the near future we may expect a still larger increase in the number of cases.

The procedure is generally the same and the following recent clipping illustrates the method adopted:

“Among the last of the important measures adopted by the City of Houston, Texas, during the past year was the passage of several ordinances fixing the rates for public utilities, such as street railway fares, gas, electric light and telephone rates, hack and dray charges, etc.”

The authorities, however, are sometimes blinded by their seeming right to compel reductions and pass sweeping ordinances, but the Company which is, of course, under the Constitution of the United States and their own State protected to an extent, and guaranteed certain rights, may secure an injunction against the immediate enforcement of the ordinances, and if it can be shown that the reduction amounts to a confiscation of property, the injunction will be made permanent.

A recent decision of the Illinois Courts held that the Peoples' Gas Company of Chicago could not prevent a reduction by Council in the rate of gas from \$1 to 75 cents per 1,000 feet, but the Company at once secured an injunction which has prevented the action of Council going into effect until the matter has been passed upon by the Courts.

This is one of many cases now pending, and, while some of them will be decided wholly on points of law, the great majority will require accurate statements of the corporations' accounts, and the most important statement will be that of profits.

It was because the whole question so intimately concerns professional accountants, whose services in these cases are invariably needed, that the title of this paper suggested itself to me, and if it serves, through awakening discussion, to settle some of the accountancy questions involved, just as the trial of the cases will tend to settle the law, my object will have been reached.

So far the cases have been widely scattered and not enough have gone to the Supreme Court of the United States to settle the general law applicable to them, and we shall not, therefore, discuss their legal aspect.

Profits are the real basis of the litigation; but there are some peculiar features about the profits of these privately formed corporations that differentiate them from the profits of a Company whose finances concern stockholders only.

Taking into consideration all the foregoing features of the case I feel that more attention should be paid towards securing uniformity and the establishment of good practice in keeping and stating the accounts of such a corporation.

Of course, no one denies that it is important to have uniformity of practice wherever the question of determining profits is an issue, but no such uniformity now exists, and we can make better progress and reach the desired end far sooner by taking up definite questions than to attempt a general reform at first.

Even in England, where the affairs of Public Companies are frequently regulated directly by act of Parliament, and where one might think that uniformity would exist, in their cases at least, accountants differ as to what constitutes net profits.

We shall, therefore, confine ourselves to a discussion of the accounts of public service corporations operating in communities or States where some sort of supervision or regulation is or may be exercised by the public authorities, and as nearly all the litigation in the past has concerned water and gas companies, we shall confine ourselves to the consideration of their accounts only. It is of equal importance, of course, that the books of *all* public service corporations should be kept correctly, but the accounts of companies other than water and gas are not so likely to be reviewed by the Courts, and by narrowing our subject and the discussions which may follow we may more readily secure a definite expression of opinion.

There are enough accountants here to revolutionize the account-keeping of public service corporations, provided we can agree on the proper principles. It is unquestionably of the utmost importance that the Company likely to be so regulated should prepare its current accounts not only for its stockholders, but for those to whom some day may be delegated the power of regulation.

Truly "a stitch in time saves nine," and it might be comparatively easy for a Company whose books show proper Depreciation and Reserve Funds, to establish their correctness in Court, whereas on the other hand it is difficult, and, as some recently decided cases have proved, fruitless for a Company whose books show no such accounts to claim that they should have appeared in their books in the past, although no mention was made of them either in the books or in the published reports to the stockholders.

A Company, forgetting the inevitable day of reckoning, may publish statements year after year exhibiting large earnings; these on their face may appear so large that inquiry is pertinent as to whether the rates producing them are not unreasonable; then if this inquiry leads to a more definite charge and the Company is confronted with an ordinance reducing rates, it naturally seems inconsistent for the Company to base its defense

on the ground that its books are incorrect, that the earnings were really not so large, because, forsooth, they had forgotten or overlooked certain charges against the earnings. The Court and the lawyers naturally believe that these claims are made for a particular purpose, and do not represent scientific bookkeeping, or else why should the books themselves be so far at variance with the claims now presented?

This plea has been presented more than once to my knowledge, and when it occurs it is not a desirable thing to have the burden of proof thrown on us. The task is particularly undesirable if the accounts under review have been made up under the orders of one of our modern commercial promoter-lawyers, who knows nothing and cares less about bookkeeping, but who knows full well how great the profits should be to send up the market price of a particular stock.

As accountants it is not our intention to advocate the preparation of accounts designed to fit a particular purpose. A reputable member of our profession would show the same net profits no matter which side he represented. We can, therefore, reassure ourselves that there is no prospect of our profession paralleling the performances of the experts of another profession whose testimony always fits in exactly with their side of the case, irrespective of the fact that other experts representing another side find diametrically opposite results from precisely the same array of evidence.

We can, however, deal better with the future when we have had some experience in the past; and, therefore, for the purpose of discussion let us assume that we have been requested to ascertain for a term of years the exact net profits of a water or gas company operating in a city whose authorities are clothed with power to regulate rates, and that the Company is operating under a limited franchise. (I understand that no municipality has the power to grant perpetual franchises.) The object of the inquiry is to determine whether the net profits have been so large that the rates producing them are unreasonable. The latter part of the inquiry would naturally be hard of solution and honest differences of opinion, even among accountants, could readily occur, the question largely being a geographical one requiring the testimony of bankers and business men familiar with local conditions and the usual rates of income from investments, taking into account, of course, the hazards and problems of the particular enterprise.

However, professional accountants should not differ radically on the question as to what constitutes net profits, and we may therefore profitably inquire as to whether or not we can agree on the proper procedure to comply with our engagement. And we shall, of course, proceed with a firm determination that our results may be used with confidence either by the Company which attempts to show that their profits are reasonable, or by the city government which is trying to show up unconscionable profits.

GROSS EARNINGS.

Probably no difficulty will arise in determining the gross earnings, for the books will, no doubt, show them properly apportioned to the fiscal periods.

The question of bad debts should be considered, but in public service corporations it is not usually a serious factor, and can readily be adjusted.

EXPENSES.

I. *Operating Expenses.* Very little difficulty arises in connection with ordinary operating expenses, as practically all companies, despite their shortcomings in other directions, place great importance on their accuracy.

The use of any proper system of stock accounts will enable the actual expenses to be easily ascertained; if stock accounts have not been kept and inventories are not available, some difficulty may be experienced in allocating the various expenses to their proper period; but if the investigation cover a term of years, the discrepancies would probably be slight and make no appreciable difference in the result.

For comparative purposes the usual ordinary operating expenses should be grouped together and their aggregate shown separately.

The propriety of including certain extraordinary expenses among ordinary operating expenses has been questioned, and the controversies resulting have not always been settled the same way; a further question in connection with them is to place them in the proper period.

These extraordinary items include legal expenses, personal injuries to employees, damages to plant, etc.

The legal expenses may have been unusually large during the period under review, and occasioned perhaps by the very litigation which resulted in the investigation, or probably the litigation has been brought about by the municipality, whose representatives will claim that had the rates been reasonable the action would not have occurred, and the inclusion of the legal fees among the current expenses would therefore become unjustifiable.

This view, however, can hardly be sustained, for the fact remains that the Company must defend itself on all occasions, whether the action is just or not, and irrespective of the result. Most public service corporations are engaged in constant litigation, and, if it be not the municipality against them, it may be some aggrieved citizen. These charges having been incurred certainly cannot be *capitalized*, and should be included among the expenses.

As to the period which should bear them, I think that they belong to the fiscal year in which the bills are presented, provided, of course, that the bills are sent in in regular course, and that good faith exists in regard to this and other points. Items which are not legitimate in every sense of the word do not belong in such a statement.

This ruling also applies to the payment of damages for personal injuries to persons and accidents to property. If the Company carry liability insurance, the premiums will, of course, be charged in the proper period; if none be carried, good practice requires the creation of an insurance fund. But even these precautions do not always cover large losses, which should be charged at the time the liability is fixed.

In other words, *all* expenditures made in good faith to preserve the property, no matter how unusual, belong to the period in which they occur.

It is not likely that the investigation would cover one year only, and by ascertaining averages extraordinary expenses could be distributed over several years, which method would not materially alter the above suggestion.

Ordinary operating expenses include those current repairs, occasioned by ordinary wear and tear, which are necessary to the up-keep of the plant.

There may be extraordinary repairs, however, occurring only at long intervals, which may more properly be classed with renewals.

II. *Depreciation.* To estimate the proper allowance for renewals and extraordinary repairs noted above will probably be the most difficult task.

An accountant cannot usually rely entirely on his own knowledge in fixing the rates of depreciation, and he should decline to act except in conjunction with a competent engineer upon whose experience he can rely to supplement his own knowledge, and whose technical knowledge can be applied to the various questions that will arise.

The expenditures for renewals during the period should be carefully analyzed, and the exact cost of the various parts of the plant ascertained. In almost all cases he will be compelled to work this out from the beginning, but if he is dealing with a corporation which succeeds another, or which has bought out several others, and he finds it impossible to analyze the construction account, he may have to rely almost entirely on the engineer to give him the cost of construction. The cost of duplication or reproduction is, of course, not the question before him; the present plant may have cost more or less than it would cost to reproduce it, but in the very nature of things we must deal with conditions which exist, and which have existed, rather than with an imaginary plant the depreciation of which must necessarily be imaginary too. This point is brought up because it has been urged in several cases that in arriving at depreciation an estimated cost of duplicating the plant should be used as a basis rather than the cost as shown by the books.

Obviously a going concern which has required years to create cannot be duplicated without considering the vital elements of time and constantly changing conditions.

If the Company built its own plant, there can hardly be any difference of opinion as to the proper charges to construction. These include all costs and expenses, including interest on the capital furnished up to the time the plant commenced to operate.

If the accounts have been kept carelessly, or, as is frequently the case, made up to show large profits, it is likely that certain renewals and repairs will be found charged to Plant, which must, of course, be eliminated and transferred to the proper accounts.

After the actual cost of the plant is ascertained and properly grouped, the accountant will take up the question of depreciation, bringing to bear his previous experience and that of the engineer's. If the renewals do not equal a fair annual charge for depreciation, he must increase and adjust the charge by the creation of an account which is usually called "Reserve for Depreciation."

In certain cases lawyers have argued that depreciation *as such* is not properly an operating expense, and the accountant, in order to win his point, may have to carry on a campaign of education. It might be suggested that the word "depreciation" does not always carry the desired meaning to a layman, and that the term "renewals," or "reserve for renewals and repairs," while not technically correct as covering depreciation in its broad sense, nevertheless is more easily understood, and, if we gain

our point by so calling it, we can comfort ourselves by reflecting that 'a rose by any other name smells as sweet.'

The argument may be urged that there is a certain appreciation of values which offsets the depreciation. Such a claim as applied to a statement of current operations is, of course, absurd and will hardly be considered seriously by an accountant.

If the annual charge for depreciation amounts to more than the actual expenditures for renewals and extraordinary repairs, as it will wherever the plant is comparatively new, the part unexpended should be carried in "Reserve for Depreciation" until the necessity for the renewals arises.

In water works plants instances are known where pipe which has been in the ground fifty years will, in all probability, be good for fifty more. In this case the annual allowance will be added and carried in the reserve for many years, but some day that pipe will have to be replaced; if there were no reserve, you could hardly find a manager strong-minded enough to keep the new pipe out of construction.

Therefore, at the end of any given period the plant should be worth its cost, or else the deficiency must be provided from this account, "Reserve for Depreciation."

This annual charge must allow for more than the *ordinary* wearing out which inevitably occurs according to the well-known laws of nature, for the owner of a perishable plant, such as water or gas, is entitled to reserve out of his earnings such a further sum as will enable him to be prepared for events which cannot be foreseen, and the prudent man will always include this allowance with his annual charge for depreciation. These contingencies include electrolysis in gas and water pipes; accidents to plant and other effects from the "acts of God." Testifying along these lines in a Southern State, I stated that this provision was a proper one and so included it, but counsel for the City interjected the remark, "We do not have any acts of God down here," so the effect of the claim was partially lost. Another contingency in the case of water companies is the possible failure of the supply of wholesome water, or the possible obligation of filtering.

In all plants using machinery the question of obsolescence is an important item, and must be considered, for, in this day of keen competition, when new devices and processes are succeeding each other with bewildering rapidity, provision must be made for keeping up with modern improvements, and it may involve the abandonment of comparatively new machinery or processes. All these do occur, though not regularly, nor can they be guarded against. The only safe plan is to have a sufficient reserve to meet conditions which arise, and not to place dependence upon any past freedom from unexpected occurrences.

Mr. J. W. Best, speaking at a meeting of the Sheffield Society of Chartered Accountants not long ago, on the subject of tramway depreciation, said that an undertaking belonging to a limited company managed by commercial men would not be regarded as soundly financed unless the directors "not only kept up the revenue-producing character of the undertaking by necessary or desirable repairs or renewals, but *out of revenue* accumulated a fund equal to the difference between cost and residual value."

III. As we are dealing with a Company whose life may be terminated

upon a certain date, surely we must prepare for the impending event, and, as we know the day, we can provide for it with some degree of accuracy.

In the absence of an agreement with the municipality to purchase the plant at cost, and if there be no provision for a renewal nor certainty thereof, the Company is entitled to charge annually against the earnings, in addition to all other charges, such a sum or annuity as will upon the termination of the franchise amount to the difference between the cost of the plant and its break-up or scrap value.

The cost of the plant here includes all payments for the franchise itself in the way of bonuses and similar items.

It cannot seriously be questioned that the owners of a plant are either entitled to the use of their property at all times with a reasonable earning power or else, if the plant is to be worked out like a mine or quarry, they are entitled to provide out of the current earnings for its compulsory abandonment. The provision should be made during the term, by a series of annual charges, and a Sinking Fund created therefor; otherwise the dividends or returns have been an actual return of capital; in any event the net profits cannot be stated without allowing for this item.

Good practice, in my opinion, demands that all the above deductions be made before arriving at or stating for any purpose the net profits of a business, and it is here that the necessity for a uniform standard will be emphasized, for, unless we can agree in some measure as to what constitutes net profits, there will constantly be the danger of having to express disagreement with the results arrived at by other accountants, and this is not pleasant nor profitable for any of us. We have a duty to each other and to the profession in general which we should not disregard.

Surely the certification by one reputable accountant to a statement of profits should be ample notice to any other accountant that the results as stated are accurate, and no re-examination should be necessary in case the other accountant desires to use those results.

How long would it take to bring the profession into contempt were it realized by business men that many accountants are so far apart in their ideas of good practice that very few of them, while acting for one side of a case, will accept the statements of the accountant representing the other?

Until we direct our attention to individual cases we are prone to believe that we all have very nearly identical ideas, and that no material difference exists in our practice so far as it applies to the foregoing proposition, but an actual instance of recent occurrence will illustrate my point that we are *not* agreed on important principles.

A short time ago a representative of one of the largest bond houses in New York called upon me and with the object of selling bonds displayed a statement of earnings of a gas company operating in one of the Western States. Noticing that the item "Repairs" was extremely small, and that there was no allowance at all for depreciation or any other fund of similar nature, the salesman was asked what they would do in case any renewals were required. He answered, "Oh, we can sell more bonds!"

In commenting further upon the statement which showed a small surplus above interest charges, he stated that it was to go to the preferred stockholders, and that the following year they hoped to have something for the common stock!

That statement of earnings was certified to by an audit company of standing, which may or may not have been aware of the fact that in that very State municipalities have the power to regulate rates; some day the Company may be charged by the municipal authorities with earning excessive profits, basing their claim upon statements similar to those mentioned. Will it be edifying to us to know that, in all probability, any fair re-statement of those profits, setting aside proper allowances for depreciation, etc., would result in a very material reduction?

Probably the bond house paid for the examination, and naturally wanted the profits to be as large as possible, but surely accountancy theories and principles do not vary automatically with clients' wishes, and, if the same accountants should subsequently represent the Company in stating the case for court, and attempt to reduce the profits as much as possible to show that they were not excessive, thereby producing a net result different from their former effort, they could, and no doubt would, be severely censured. I do not claim that any of us might not have fallen into the same sort of error in the past, but I do urge the immediate importance of establishing a general standard which will be firm enough for all of us to rest upon in the future.

In some cases like the above, letters have accompanied the certificates of profits, qualifying them, and calling attention to the absence of depreciation charges, etc., but unfortunately for us the letters and the qualifications do not go to the investor—who sees only the certificate, and who has no time nor inclination to analyze that; moreover, he has a perfect right to rely on the certificate itself, and if subsequent unsatisfactory results impel him to take up the matter anew and ascertain all the facts he will probably be added to the number of men who express themselves as being afraid to rely on an accountant's certificate of profits.

In direct connection with our subject is the question of the reasonableness of the profits, and, as stated previously, opinion may differ here without fear of criticism. In my opinion, where this is an issue, additional allowances should be provided from the earnings. Although we have arrived at what we call the net profits of the undertaking we cannot safely rely on the entire amount being available for dividends, nor have we yet reached a net result upon which can be based arguments concerning reasonableness of rates.

In other words, "net profits" may not in these cases represent a final result from which no further deductions should be made.

One of these allowances is for what is usually known as the good-will of the concern, representing the difference between the cash cost of the plant and its value as a going concern, and which is usually reflected by the market price of its stocks and bonds. Possibly this good-will has been more than covered by an injection of "water" into the original stock issues, but in any event, if the venture has been very successful, or particularly if it has been worked up from an unprofitable to a very profitable basis, the Company is certainly entitled to some return from this increment and is justified in ear-marking part of the net profits as an income or return on this increase. This amount would hardly find its way into the books or

statements, but if there is litigation and the issue is raised an accountant is bound to take this point into consideration.

Where the Company has been worked up to such a profitable basis, the municipality should not expect it to reap no return beyond the usual or legal rate of interest upon its cash outlay in former years. For this reason, before the rates in force could be considered unreasonable, this further reserve or annual charge should be provided out of the earnings, not as a deduction before showing net profits, but as a special return which might form part of the dividend.

In support of this contention the following extracts from decisions by the Supreme Court of the United States are pertinent. The cases were along the lines of the question we have been considering:

"What the Company is entitled to demand in order that it may have just compensation is a fair return upon the reasonable value of the property at the time it is being used by the public."

"That is decided and is decided as against the contention that you are to take the actual cost of the plant, annual depreciation, etc., and to allow a fair profit on that footing, over and above expenses."

"Nor would the mere cost of reproducing the water works plant be a fair test because that does not take into account the value which flows from the established connections between the pipes and the buildings in the city. It is obvious that the mere cost of purchasing the land, constructing the buildings, putting in the machinery and laying the pipes in the street—in other words, the cost of reproduction does not give the value of the property as it is to-day."

"Being a system in operation, not only with a capacity to earn, but actually earning, makes it true that the fair and equitable value is something in excess of the cost of reproduction."

Of course, arriving at the proper capital sum to be so returned would be difficult, for the entire capital stock might be "water." Nevertheless, many holders may have been purchasers for value, and they would have certain rights. In such a case it would not be legitimate to provide a Sinking Fund out of earnings large enough to retire the whole issue at the end of the concession, but only the actual value should be considered.

Another point requiring attention is that all public service corporations furnishing gas and water are under the obligation of making extensions to their lines upon being instructed so to do by the authorities, arbitrarily perhaps, and without regard to the fact that the income from a certain extension may be insignificant when compared with its cost, and if these extensions were called for near the end of the franchise no return at all might be received.

Therefore, it would seem that a Company might deem it desirable to set aside certain of the profits to provide for this contingency, and it would undoubtedly be prudent to do so. If the extensions were made near the expiration of the franchise, it would be simply impossible to provide for them out of earnings, and in this case the Company would be in an unfortunate position. It emphasizes the importance, however, of setting aside suffi-

cient Reserves or Sinking Fund to take care of the outlay during the earlier period.

It might be urged that a strict following out of these theories would result at the end of the term in the Company's not only having a Sinking Fund sufficient to cover the deficit between the cost and the break-up value, but that there might be a balance in the Depreciation Fund which would be equivalent to a further and additional return of capital. It is true that this *might* happen, but the chances are against it, for in nearly all cases we would be dealing with a Company having a long term franchise, and it might easily happen that just before the expiration of the term the necessary renewals of plant had exhausted the fund. It is likely that the depreciation reserves would be too low rather than excessive, so that in a long term the depreciation fund could never be counted upon to show constant large credit balances.

In any event, an accountant is not justified in assuming in special cases that contingencies will *not* occur, and he has a responsibility to future stockholders which he should consider. Failure to insist on proper reserves at the present time based upon the representation or excuse that the future will take care of itself is not excusable on the part of anyone, and least of all to the accountant.

Summarized briefly my contention is that it is more important for professional accountants to agree on uniform practice in determining the profits of public service corporations *where* municipalities have the power to regulate rates than in any other class of cases, and the following outline representing my personal views is submitted as an equitable basis:

Earnings: The basis being actual earnings as distinguished from receipts can hardly be questioned, and, therefore, needs no comment.

Expenses: Before stating the net profits there should be deducted from the Earnings:

I. Ordinary Operating Expenses, including ordinary Repairs and certain extraordinary expenses actually incurred during the period, such as legal expenses, etc.

II. Depreciation. Allowing enough to cover all renewals known to be necessary and also a reasonable reserve for unknown but probable causes, such as electrolysis in the case of iron pipe, obsolescence in the case of special machinery and processes, etc.

III. In the case of a Company operating under a limited franchise, where there is no agreement to purchase, a sufficient annual sum, or annuity, to return at the end of the concession the actual loss of capital which will be the difference between cost and the break-up value.

The above deductions to be made annually from earnings before bringing down the net profits available for dividends provided extensions, etc., have been allowed for, and then before stating these net profits for the purpose of computing the rate of income upon the investment, also setting aside an allowance to provide for the return of the good-will to the stockholders by the expiration of the franchise.

The remainder can then be used with confidence as a basis for argument as to whether the rates producing this net result are or are not reasonable.

CHAIRMAN.—The paper of Mr. Montgomery is now open for discussion.

MR. DICKINSON.—Mr. Chairman and Gentlemen: Mr. Montgomery asked me to say a few words about the subject of this paper. I am sorry to say that what I ought to have done beforehand I have not done: that is, to read the paper before this meeting, but time has not permitted. I think we ought to thank Mr. Montgomery very much indeed for the care and thoroughness with which he has treated the subject, which is one of considerable difficulty. The importance of it is perhaps only beginning to be appreciated, because it is only in recent years that these franchises are beginning to run out, and the question of renewing them has come up for consideration. The general idea Mr. Montgomery has laid down is that there are certain definite classes of expenses which must be taken into account in ascertaining what is really the earning capacity of a business. In any business there are certain losses which arise out of and are incident to the operation. *i. e.*, the operation cannot go on without them. On the other hand there are other losses which are quite independent of the operations. Now, if a City gives a franchise to a Public Service Corporation and specifies that the profits are not to exceed a certain rate, I think it is reasonable to assume that the charges against earnings before arriving at profits should be those only which are incident to the operations. In ascertaining the amount available for dividend it would not be reasonable for the Company to take into account losses not arising out of or incident to the operations, such as loss of good will, or of fixed capital assets due to fall in values of property generally. One of the most important of such items is Good Will, which may consist of the actual amount paid for the franchise itself, either to the City or to the Intermediary who acquired it from the City, or it may include a large amount of water. While it is true that Loss of Capital must be recouped out of earnings over the life of the franchise, it certainly would not be fair if it were obliged to pay, either directly as part of the purchase money of the property, or indirectly in the rates paid by the citizens, for a large amount added by the Company to the value of the franchise in excess of the amount the City received therefor.

I think, following out that principle, that losses of Fixed Capital should not be taken into account, but that all losses of Wasting or Floating Capital should be a charge against earnings.

I will move a cordial vote of thanks to Mr. Montgomery for the paper he has given us, and the great care and thought he has devoted to it.

(Motion seconded, put to vote and carried.)

MR. CHASE.—I might say that the importance of this matter is brought very forcibly to the attention of the accountants in Massachusetts, where we have special laws relating particularly to gas and electric and other public service corporations, which are controlled by means of a Board of Commissioners under the State laws. These Commissioners practically regulate the price throughout Massachusetts. When a City desires to go into the business of supplying gas or water or electricity it is compelled by law to first purchase the existing Company, if such there be, at a fair market value. The question then to be determined is what is a fair market value for a given plant. I have been on three or four of the important cases in Massachusetts, and it can be easily appreciated that the difference of opinion between the two sides may run from half a million to a million and a half dollars, and the question of depreciation is exceedingly important.

I agree with Mr. Montgomery that action should be taken by the Accountants on lines which could be uniformly followed, and if a Committee in some practical way could come together and decide what could be done and if we could follow that course hereafter it would add another important feature to the results of this Congress.

JOHN ALEX. COOPER, C. P. A. (Chicago).—I took in with a great deal of interest the remarks of Mr. Chase coinciding with Mr. Montgomery's views, that a line of conduct should be laid down in regard to such questions. I cannot help remarking that the position as relating to Massachusetts is so much in advance of many other States, and the conditions are so entirely under control in different ways, unlike they are in the West. I think that things of a corporate nature, not only of utilities, but also manufacturing companies, are much more in control in Massachusetts than they are anywhere else. As to the effect of the difference in the corporation law of Massachusetts, it being so much in advance of that of any other State in regard to the control of corporations, etc., and also in support of his statement this morning that his Society is practically as strong to-day in his own State as if he had the C. P. A. degree, which I know to be the case, I have been called upon to certify to foreign corporations working in

Massachusetts where it is part of the law that foreign corporations of over \$100,000 shall require a certificate of the election of their auditor, and also the certificate from the auditor that the returns made on that form are in accordance with facts.

MR. CHASE.—I would like to say that if in Massachusetts we were only handling corporations under Massachusetts law it would be a very simple matter, but we are handling corporations under the laws of other States whose requirements are entirely different from those of Massachusetts, and therefore we appreciate the very marked necessity for some uniform method of treating the matter of depreciation.

CHAIRMAN.—Would Mr. Montgomery like to say anything in closing the discussion?

MR. MONTGOMERY.—No—except this: I would like to have some little expression of opinion from this Congress as to the propriety and desirability of taking these three classes of expenses from the earnings before bringing down the profits. If anyone does not believe in deducting all three of them I think we should have that expression of opinion.

Mr. Pixley's paper covered the question of whether depreciation should be included among the operating expenses, because he said it was just as important to deduct that as wages. If a workman is using a machine and is paid one dollar a day for his labor, and if he is wearing the machine out at the rate of one dollar a day, there is two dollars expense before you can get the profit.

CHAIRMAN.—As it is oftentimes advisable to get a long distance view of things, perhaps Mr. Pixley would just say a word on this subject.

MR. PIXLEY.—I am afraid I don't know very much about what you call "public service corporations." The public service corporations in England are usually restricted and are not allowed to pay above a certain amount of dividend, and there is a government auditor who looks after that and does not allow too much to go to the pockets of the shareholders. Payment for wages and salaries, etc., should be cash payments, but the actual wear and tear, I think, should go into a separate schedule. I should think you would divide them under two heads.

CHAIRMAN.—The point raised by Mr. Montgomery, as I understand it, was simply to bring out that before *net* profits shall be stated all this shall either together or in separate schedules be deducted.

MR. PIXLEY.—I agree that no net profit shall be paid until everything has been deducted—interest on loans, all expenses, the percentage of depreciation, estimated losses that may arise on realization of debts, etc. We do not like the words “net profit” ever to be made use of until all these have been deducted. That is our aim in England.

MR. CHASE.—There is a way to bring about some action on Mr. Montgomery’s paper. I would like to suggest that a Committee of six be appointed (with Mr. Montgomery as Chairman) by the Chair to-morrow, to report on Mr. Montgomery’s paper, their report to be printed together with Mr. Montgomery’s paper in the proceedings.

(Motion seconded, put to vote and carried.)

CHAIRMAN.—The Committee will be appointed to-morrow. If there is no further business before the Congress we will stand adjourned until ten o’clock to-morrow morning.

Special Committee's Report on R. H. Montgomery's Paper.

The committee appointed at the Congress of Accountants, held at St. Louis, U. S. A., in September, 1904, to review the paper by Robert H. Montgomery, C.P.A., upon "The Importance of Uniform Practice in Determining the Profits of Public Service Corporations Where Municipalities Have the Power to Regulate Rates," having taken the paper into consideration, have come to the following conclusions and now beg to state the same as their opinion upon the questions raised :

I. A distinction must be made between the profits of an undertaking from the point of view of the general community and the profits available for dividends from the point of view of a Corporation owning such undertaking. The former would be the net earnings from the operation of the undertaking, after providing for all waste or depreciation of capital assets arising directly out of such operation ; while the latter would only be arrived at after providing also for any possible loss on capital assets arising from causes not directly incident to such operation, and for interest on borrowed money.

II. The Net Earnings of a Public Utility with which the general community is concerned are determined by the excess of Gross Earnings over Expenses, defining the latter terms as follows :

Gross Earnings consist of the charges for all services rendered during the period as distinguished from mere Receipts, but would exclude incidental earnings not arising out of the operation of the Utility, such as Interest on investments.

Expenses consist of :

- (1) The direct cost of operation and of maintenance (ordinary repairs), expenses of management and provisions for bad debts, damage claims and rebates, as well as extraordinary expenses incurred during the period, such as legal charges, etc., but they should not include interest on borrowed money, discounts on bonds issued, or other charges in connection with the promotion or financing of the undertaking.
- (2) Depreciation—
 - (a) On Plant—physical—covering wear and tear, including direct requirements for renewals, etc.; arising both from known and probable causes, such as electrolysis, etc.
 - (b) On Plant—indirect—due to obsolescence and the

like, but not that due to a fall in value from general causes.

(c) On other Capital Assets which are diminishing in value as a direct result of the operation of the property, such as moneys properly expended in acquiring from the local authorities the franchise under which the Utility is operated where such franchise is, as is usually the case, terminable after a certain number of years; or cost of mines, quarries or other similar properties which are being used up continuously for the purpose of operating the Utility. But there should not be included any provision for recouping promoters' profit or other watered capital, or for possible loss by reason of a general fall in values, etc., on the purchase at the end of the franchise of the whole undertaking by the public authorities, *i.e.*, the state or municipality.

III. In dealing with the private accounts of a Corporation operating the Utility, Earnings will also embrace miscellaneous receipts, if any, not connected with the actual operations of the undertaking, and the following additional expenses should be allowed for, before arriving at a balance available for distribution:

- (1) Depreciation—An additional amount to cover any excess of the book value of Good will, Franchise and Plant over that provided for under Section 2, subsection c above, or over the sum it may be expected to realize on the expiry of the Franchise.
- (2) Interest—On Bonds or other Funded or Floating Debt.

IV. In determining the rates which should be charged to the public, regard must be had (a) to the profit ascertainable under Section II. and (b) to the further charges specified under Section III., which would have to be borne by the Corporation out of such profits. For instance, if eight per cent. per annum on the capital invested is considered a reasonable rate for a Corporation to earn, taking into consideration the risks in Section III., then the rates should be fixed so as to allow of a profit of eight per cent. calculated as laid down in Section II. and out of this profit the Corporation would have to provide for the risks and expenses stated in Section III.

A. LOWES DICKINSON,
ELIJAH W. SELLS,
HARVEY S. CHASE,
ERNEST RECKITT,
JOHN B. NIVEN,
ROBERT H. MONTGOMERY, *Chairman.*

The Banquet.

The Banquet on Tuesday evening, September 27th, was held at the Mercantile Club. The use of the Club was obtained through the courtesy of Mr. George Oliver May, a member of the Entertainment Committee, and also a member of the Mercantile Club.

The Guests were conveyed from the Hamilton Hotel, where the headquarters of the Congress were established, in two beautifully appointed private trolley cars, furnished through the courtesy of Mr. F. R. Henry, Auditor of the St. Louis Transit Company.

The Banquet room occupies the entire sixth floor of the Club and was suitably decorated for the occasion with plants, cut flowers and colored electric lights.

Incidental music was supplied by Prof. Anton's Orchestra, which was artistically masked behind an entanglement of autumn foliage and decorative plants.

One hundred and twenty-two Members of the Congress, Guests and Ladies sat down to dinner. Among the Guests attending the Banquet should be mentioned Francis W. Pixley, of London, James Martin, of London, and Mrs. Martin, John Ballantine Niven, John Hyde, of Montreal, and Mrs. Hyde, John W. Ross, A. F. Mitchell, A. F. C. Ross, of Montreal, Henry Barber, of Toronto, F. H. Macpherson, of Windsor, and Mrs. Macpherson, W. T. Kernahan and Miss Kernahan, of Toronto, Rev. Ernest Duckworth, of St. Louis, Capt. Percy Atkin, late of the Lancashire Fusiliers, F. R. Henry, of St. Louis, and Mrs. Henry, Major John Hinkley, of Baltimore, E. Van Dien, of Amsterdam, and Mrs. Van Dien, Hon. L. G. Powers, of Washington, Hon. W. E. Andrews, of Washington, Louis Betz, of St. Paul, and Howard C. Beck, of Detroit.

Grace was said by the Rev. Ernest Duckworth, Rector of St. James' Parish, Saint Louis.

After coffee had been served the Chairman of the Congress, Mr. J. E. Sterrett, introduced Mr. Harvey S. Chase, of Boston, as Toastmaster.

HARVEY S. CHASE.—Mr. Chairman, Ladies and Gentlemen:

When with some trepidation I accepted the post of Toastmaster

at this banquet I was told by the honorable committee—to whom I wish to express my obligations for the honor thus conferred—that I should be expected to inject a certain lightness or frivolity into these, our after-dinner exercises. To men of our profession lightness or frivolity is a serious business and one not to be entered upon without due consideration!

Proper regard must be given in an Accountant's banquet that the "Income" of joy to the assemblage should be at least equal to the "Expenditure" of wit and folly through which that income is derived. Moreover the "Liability" to physical or mental indigestion of those "As sets" (!) at these delightful tables must certainly be markedly exceeded by the "Resources" of the speakers.

A correct "Balance Sheet" being thus provided we shall not be at a "Loss" to discover "Profit" from our friendly little dinner. Laying aside, therefore, every fear of criticism or inharmony, let us all together endeavor to make this festivity a truly fraternal one with a most friendly welcome to each speaker and a fervent desire on every speaker's part to add to the esteem, admiration and love with which every true member cherishes the Profession of Public Accountancy in these United States."

The first Toast tendered was "The President of the United States." The Toastmaster said in part: "The President of the United States to-day believes in the principles which Public Accountants advocate. He has shown us that he is strenuous in investigations, is urging audits of inter-state corporations, is interested in methods for uniform public reports and accounts—witness the present work of the Census and the new Department of Commerce and Labor—and we can be sure that every true representative of our profession will always receive a good word and a hearty handshake from him."

After telling an amusing story which was well received, the Toastmaster called upon Mr. William M. Lybrand, of Philadelphia, to reply to the toast of "The Profession of the Public Accountant in the United States of America."

WILLIAM M. LYBRAND.—The toast on which I have been asked to speak is a weighty one—"The Profession of the Public Accountant." Ours is a many-sided and a hard-working profession. That it is a hard working one, nobody will deny who has attended the strenuous sessions of the last few days, but at the same time we must not forget the many delightful rests by the way, such as

luncheons, receptions, etc., which have been so admirably arranged for us by our Secretary.

The subject of my toast admits of discussion from many points of view, any one of which would be of interest if properly treated.

It would be valuable, for instance, to have the subject itself so ably defined that it might be clear to every one just what is meant by the words "public accountant." Many of the laity, I am afraid, are somewhat hazy even in this particular, and some of our legal brethren are still inclined to place the public accountant in the class of expert automatons, if I may use the term.

The duties and responsibilities of Public Accountants are also subjects of great interest to the profession, and ones that would admit of extended comment. We were glad to hear this afternoon an able presentation from one of our distinguished guests, bearing on this phase of our work.

The few words I desire to say to-night will be devoted to another feature of the profession, which, I believe, is of interest to all the young members—and we are all young to-night.

I wish to direct your attention to the *opportunities* of our profession.

In this commercial age, the first question usually asked is, "Will it pay?" meaning in dollars and cents. To-night let us deal with more ideal considerations—and I will dismiss this question by saying that—given equal brains, adaptability and energy, I believe the rewards in our profession are on the average at least equal to those in any other profession.

Another opportunity which appeals to me is the possibility which the public accountant has of acquiring a knowledge in a broad way of the many manufacturing, commercial and financial undertakings with which he comes in touch in the course of his work from day to day. This continuous acquisition of information adds greatly to the interest of our work, and when we consider how varied our work is—reaching into educational and philanthropic, as well as into commercial circles—I consider it no mean privilege to be enrolled in a profession in which one's education is constantly one of growth.

Another thought that appeals to me is the opportunity we have of coming in contact with some of the best and brightest minds of our day. The close personal relations that we form with our clients, feeling something of the quiver of their efforts, rejoicing in their successes, pointing out the stumbling places when they meet

with discouragements—these close personal relations with men of worth I consider of great value to a young man in our profession.

One more thought, and that is the opportunity we are enjoying to-night—that of stepping aside occasionally from our work and meeting in friendly conference and social enjoyment. This International Congress is proof of how we all value this opportunity of our profession, and I am sure all my fellow workers will agree with me in wishing that it may be repeated.

The Toastmaster then explained that owing to the number of toasts yet to come, and the fact that Mr. Lybrand had kept well within the limit of time, he thought it would be the duty of the Toastmaster to shut off any future speaker who did not keep within the time by proposing a rising toast to such speaker at the expiration of the limit!

A. LOWES DICKINSON then responded to the same toast as follows:

Our Toastmaster sets a standard for after-dinner speaking that is very hard to follow. This subject of "The Profession of the Public Accountant" in America, is rather a heavy one after dinner, especially as we have been talking about nothing else for the last few days. I am afraid the ladies might think they may have heard *too much* about the Public Accountant by this time, but I do want to take this occasion to bring before you the name of one, whom most of you know of and who, excepting our present Secretary, has done more than any other person to advance the profession in this country. I refer to the late Charles Waldo Haskins, to whom we all owe a debt of gratitude for his untiring efforts and undivided attention given to a work that has now taken a firm and lasting hold. We all owe a debt of gratitude to those who have gone before us, for the work which they have left behind them. It is our duty to keep up this great work and for each of us to leave behind some useful thing done for the good of the profession; something to aid those who follow us in their life work. This Congress will, I am sure, be of the most lasting benefit in this direction, as showing *what can be done*, and the results of this meeting will, I am sure, be remembered long after we have gone our several ways. If we all bear this in mind, the coming generation will have something of greater value than we, in our turn, received from our predecessors.

TOASTMASTER.—In addition to New York and Philadelphia, we have now to hear from a representative Accountant practicing in

Chicago, and I have great pleasure in calling upon Mr. Allen R. Smart, who will say a few words on this same toast, representing as he does the great central section of the country.

ALLEN R. SMART said in part:

It gives me great pleasure to have an opportunity of speaking to this gathering of Public Accountants. The gentlemen who have already spoken on this toast have left me very little to say. However, on behalf of the Illinois Society of Certified Public Accountants, I will add a few words. I think that this Congress is a memorable event in the history of the profession of the public accountant in the United States, and I think it will do a great deal of good. It is necessary for the accountants to get together to compare notes as it were, with a view to unity of practice, to raise the standard and plans of their profession and make it better known generally throughout the United States. The Illinois Society has advocated this right along, and has done its best to further that object. Mr. Wilkinson, our former President, has worked hard with that end in view. This is only the beginning and we should continue our efforts in this direction.

The future of the profession of the Public Accountant depends largely upon the members themselves. We should secure the recognition of the C.P.A. degree from Maine to California, and the best method of doing this is to have gatherings such as we are having at present. Whenever an object of that kind is brought up the Illinois Society of Certified Public Accountants will be found in the front.

The next toast, "The Louisiana Purchase Exposition," was responded to by Mr. George O. May, of Saint Louis.

GEORGE O. MAY.—When it was intimated that I should be called on to reply to the toast of "The Louisiana Purchase Exposition," I felt that the toast was such an excellent one that even the weakest speaker could respond to it. Governor Francis has so ably and fully described the vastness and grandeur of the Exposition and the magnitude of the undertaking that there is very little for me to say except to reiterate what he told you and to add to his words an expression of my own hope that everybody here will have time both during the Congress and after it is over, to leisurely go over these magnificent grounds, view the wonders of every clime and inspect the exhibits that are only brought together, once in a very long while, and when you return to your homes the impressions left in your minds will, I am sure, be only of the most

pleasant and enjoyable nature and that all will be glad they came.

REV. ERNEST DUCKWORTH then made a pleasing and witty speech and told two clever stories, one relating how a young woman who could not get a husband was envious of a neighbor, three times widowed, whose husbands had each in turn been cremated and who had "husbands to burn." After paying a tribute to the Profession of the Public Accountant and putting them on the high level with doctors and lawyers, the Clergyman left the Banquet Hall amid applause.

MR. FRANCIS W. PIXLEY, of London, responded to the toast of "The British Societies" and said in part:

When I was appointed as a delegate of the English Institute of Chartered Accountants to attend this conference as their representative, although I accepted the invitation with pleasure, I certainly felt a great deal of uneasiness as to how I might be received, and more especially after I had given my views in the paper which I undertook at the same time to read. Although it is considerably less than a week since I landed in this country, it is impossible for me to feel that I am nearly 3,500 miles from the town in which the greater part of the year I reside. I never realized before how very little difference there is between Americans and Englishmen. I cannot see that there is *any* difference at all. Our thoughts seem to be the same, certainly our language is the same. I can only say I feel gratified to you for the opportunity you have given me to visit for the first time this country, and when I get back I shall take a very early opportunity to express to my brethren in England how royally I was treated.

Mr. Pixley then went on at length to describe the growth of the English Societies, 3,200 Members having joined the Institute since it was granted a royal charter twenty-five years ago. He also told of a plan to bring together all the Scottish and English Societies, of which there are eight or nine in England and Wales, by a system of registration; but this movement seemed to have been a failure, although the members of the Institute had hopes of bringing it about at some future time.

Mr. Pixley cautioned his hearers about the great necessity for sticking and working together and hoped that the Accountants on this side would remember this and work for it.

He spoke of the recognition by the Universities here and felt that it was a great stride forward, and hoped that the States yet without C.P.A. Laws would soon have them. In closing Mr.

Pixley thanked the accountants for their courteous treatment and promised that should the accountants of this country ever have occasion to visit England they would be accorded a royal welcome.

MR. JAMES MARTIN, of London, was then introduced by the Toastmaster and spoke on the same toast, "The British Societies," as follows:

"When on July 4th last, with many other British subjects, I joined in celebrating American Independence Day (applause) there was present at the Banquet His Excellency the American Ambassador to England, and he rather reproached the American Society in London for having relegated the ladies to the gallery of the hall and for asking them to eat candy there while the men enjoyed more substantial benefits below." In this respect Mr. Martin was glad to see the Federation of Societies of Public Accountants in the United States had acted differently and that the ladies were side by side with the men. Mr. Martin continued as follows: "I have addressed societies of Accountants in Europe, Africa and America, and during the whole of that time have had by my side one cheerful little soul who has supported me in the cause which is to me beyond every earthly ambition, and therefore when our good friend Mr. Wilkinson wrote over to me in England and said to me 'bring your wife with you,' you may guess how glad I was to accept his invitation." Mr. Martin then wittily explained his troubles in passing the customs inspection on reaching New York.

Mr. Martin continued: I learned to love the American ladies a few years ago, when Great Britain was at war with South Africa and nearly all Europe lusted to see the British flag dragged in the dust. In the darkest hours there came a noble band of American ladies who fitted out a hospital ship called the "Maine" at a cost of hundreds of thousands of dollars, and presented her as a gift to the British people. I am here to-night as the representative of what I claim—and I hope in this I shall not offend Mr. Pixley or Mr. Hyde—to be the most representative body of British Accountants in existence, representing 2,086 members. Besides the Council, which sits in London, Edinburgh, Dublin, Melbourne, Sydney, Cape Town and Johannesburg have endorsed my credentials and all these brethren have desired me to tell you of their affection and regard. I therefore now desire to express on their behalf their debt of thanks for the honor and hospitality you have shown us. From the time when we landed in New York, when we were met

at the pier by Mr. Sells and Mr. Dickinson, down to the present time, we have only one conclusion and that is, that it was good for us to come.

Mr. Martin concluded his address by an earnest appeal to American Accountants to be at unity amongst themselves—"to set the cause above renown, to love the game beyond the prize." (Applause.)

CAPTAIN PERCY ATKIN, late of the Lancashire Fusiliers, British Commissioner of Education and Social Economy, then responded to the Toast of "The Ladies," and said in part:

My remarks are made on behalf of the ladies who have favored us with their presence to-night, and I am happy to be able to talk on so delightful a subject, and I am sure I can say nothing here which you will not all thoroughly endorse. Captain Atkin then paid a very complimentary tribute to the ladies, which was received with applause.

The toast of the "Canadian Societies" was responded to by MR. W. T. KERNAHAN, of Toronto, who said:

I am indeed honored by having my name coupled with the toast that you have just received. On behalf of the Institute of Chartered Accountants of Ontario, which has honored me with its Presidency, I desire to extend to you and to the members of this Congress our most sincere and hearty thanks for the kind and generous hospitality that you have heaped upon us from the time the invitation was extended to attend this Congress up to the present moment, and even extending beyond to-night, as there is yet an unfinished programme of continuous pleasure provided for us every minute of our stay in St. Louis. Words fail me to express the gratitude that the Members of the First Canadian Institute of Chartered Accountants feel for the honor that has been done them in inviting them to the Congress, and for the privilege of taking part in its deliberations. Such a gathering as this cannot but be of great benefit to the profession of Accountancy not only immediately in the United States of America, but also in our own Dominion of Canada, for any progress made in either country must of necessity be to the advantage of the other. Here we have assembled Accountants—the flower of the profession—from every State in the Union and representatives from the dear old Mother Country, and who is there that can begin to estimate the great good that is bound to accrue to the profession as a result of such a gath-

ering where the best ideas of the best men are exchanged on the subjects which are of most interest to all of us.

We were glad to learn from Mr. Wilkinson the great advance made by the profession in the United States and here, Sir, I desire to congratulate him most heartily for the worth of that admirable paper. There was one point in it that was of particular interest to me and that was when speaking of the future membership of the societies, Mr. Wilkinson said "they must enter by the straight and narrow gate of examinations. The more young men who enter the profession through the door of which the examiners hold the key, the stronger we shall become as a professional class." That is exactly how the membership of the Institute of Chartered Accountants of Ontario has been admitted for the past twenty-five years. With a membership of over one hundred the large majority of whom are practicing public accountants, I am proud to say that not more than half a dozen entered by the open door and they were the Incorporators, every one of whom is a man held in the highest esteem in our commercial world, all the others were admitted after passing at least one and sometimes two examinations.

Now, Sir, I have done, but I cannot sit down without again emphasizing the very great obligation the Canadians are under for the many kindnesses shown to them for which we most sincerely thank you.

MAJOR JOHN HINKLEY, of Baltimore, Secretary of the American Bar Association, then responded to the toast "Our Guests" in a very witty and pleasing manner, telling how he had been called upon by the Toastmaster during the meal to prepare a speech, the suddenness of this having been more than he was prepared for. He had asked the Toastmaster what he was to talk about, and to this Mr. Chase had replied—"about two minutes." Mr. Hinkley went on to say that the American Bar Association had been holding Congresses for twenty-seven years and had found them of great advantage to them, and he felt sure the Congress of Accountants would result in bringing about a stronger and more lasting sympathy between members of that profession than anything else could.

The Toastmaster interpolated several amusing anecdotes, which were received with laughter and applause.

ALFRED G. PLATT, of San Francisco, was then called upon by the Toastmaster to make a speech, and it shortly transpired

what had kept him so busy during the previous forty-eight hours. After relating an amusing anecdote which he claimed had "first been told in the garden of Eden," Mr. Platt explained that the matter on which he would claim the attention of the Congress and their friends was the presentation of a Silver Loving Cup to George Wilkinson, the Secretary of the Federation of Societies of Public Accountants in the United States, the Secretary and promoter of the Congress. Mr. Platt paid a glowing tribute to Mr. Wilkinson and to the unceasing endeavor and hard work which he had devoted to making the Congress a success, and of the earnest endeavors that had been put forth by him in organizing the Federation. He said the accountants should be proud of such a man in their ranks, and on behalf of all the accountants expressed the admiration, love and good will which they all felt for the Secretary, and wished him every success and prosperity, with good health to his wife and himself.

MR. WILKINSON was so surprised and overcome at the unexpected honor conferred upon him that it was some time before he could find words to reply, but after recovering himself he expressed his thanks and appreciation for the handsome gift, in his usual genial and enthusiastic manner, and thanked the Accountants and especially his colleagues, Mr. Montgomery, Mr. Dickinson, and Mr. May, for their active labors and for their never tiring desire to help him. He also wished to publicly express his thanks to his business partners, Ernest Reckitt and John J. Williams, and especially to his life partner, Mrs. Wilkinson, for their forbearance with him and their great help when things at times looked dark and the success of the enterprise was by no means assured. Mr. Wilkinson expressed the obligation of all present to the visiting accountants for coming such great distances, especially those who came from England and Canada, as their presence had in a great measure made the Congress a success. After telling of the inception of the Congress and how it had steadily grown in strength and magnitude, he again thanked all present in behalf of Mrs. Wilkinson and himself for their great kindness and for the beautiful gift they had presented to him. Mrs. Wilkinson was appropriately requested by Mr. Platt to be the first to drink to her husband's long life and prosperity. The loving cup was then passed round and the toast duly celebrated.

Thus ended in the small hours of the morning the principal social event of the First Congress of Accountants.

Third Day.

(WEDNESDAY, SEPTEMBER 28th, 1904.)

MORNING SESSION.

The Congress was called to order at 10.30 a. m., J. E. Sterrett, C.P.A., in the Chair.

CHAIRMAN.—Last evening there was a resolution offered by Mr. Chase and unanimously adopted by the Congress to the effect that the Chair should appoint a Committee of six with Mr. Montgomery as Chairman, to consider Mr. Montgomery's paper, and publish its views and suggestions in connection with the subject, letting that be the expression of the Congress.

The Committee will consist of Mr. Montgomery, Mr. Chase, Mr. Dickinson, Mr. Niven, Mr. Reckitt and Mr. Sells.

Mr. Powers, of the Census Bureau of the United States Government, suggested to me a few moments ago that he would like to address the Congress for a moment, and we will be very glad to hear from him at this time.

MR. POWERS.—You know that we are engaged in the general work of compiling statistics of municipal finances, as well as other branches of the government service. The American Economic Society, at my request and invitation, appointed a Committee last January at their meeting in New Orleans, to co-operate in the discussion of the questions connected with the Census Office. These questions concern accounting as well as economics, and if it is deemed by you gentlemen of sufficient importance to take action therein I will most cordially invite you to appoint a Committee upon the subject of municipal accounting and terms to be used therein, to co-operate with the Census Bureau in this field.

MR. MONTGOMERY.—Mr. Chairman: As it is the thought of those who were connected officially with the bringing about of this Congress that the Congress itself should pass out of existence, and in view of the fact that it might require some consideration before Mr. Powers' suggestion is acted upon, I would move that

the matter be referred to the Executive Board of the Federation for action.

(Motion seconded, put to vote and carried.)

CHAIRMAN.—We will now proceed with the regular programme.

Some two or three months ago a party of men were comfortably seated around a table in an office in New York City, and were discussing a list of topics that had been suggested for papers for this Congress. Among the topics on that list was one of "Profits of a Corporation." Two or three of the men, I think, suggested that they would perhaps like to write a paper on that subject, but after there had been some expression of opinion another gentleman took from his pocket two little pieces of paper, and in a smiling way said that he had thought of writing a paper on that subject and had already started it, and that this was the extent of his efforts. These pieces of paper were very small, but there must have been some very good seeds in them, for out of them has grown a paper that I am sure will be one of the most important of this Congress.

It is written by a man who has had very wide experience: a man who has had his training in the office of one of the best firms of Chartered Accountants: a man who is a Fellow of the Institute, but one whom we are glad to say has come over to America not simply as a visitor to leave us in a few short days, but one who has cast in his lot among us, and one whom we are glad to count as belonging to us.

We will now hear a paper on the "Profits of a Corporation," by A. Lowes Dickinson, F. C. A., C. P. A., of New York.

The Profits of a Corporation.

BY

ARTHUR LOWES DICKINSON, M. A., F. C. A., C. P. A.

Of the firms of Jones, Caesar, Dickinson, Wilmot & Co.,
and Price, Waterhouse & Co.

PRELIMINARY.

The subject selected for this address must always rank among the most important with which the Accountant is brought in contact, and as such it has been deemed deserving of the consideration of the first general assembly of Public Accountants to be held in this country.

Its adequate discussion involves a brief reference to the nature of

Profits and Losses in the abstract, followed by a consideration of the legal and accounting principles relating thereto in the case of corporations; and of the practical application of these principles to ordinary commercial transactions.

DEFINITION OF PROFITS.

In the widest possible view, Profits may be stated as the realized increment in value of the whole amount invested in an undertaking; and, conversely, Loss is the realized decrement in such value. Inasmuch, however, as the ultimate realization of the original investment is from the nature of things deferred for a long period of years, during which partial realizations are continually taking place, it becomes necessary to fall back on estimates of value at certain definite periods, and to consider as Profit or Loss the increase or decrease between any two such periods. Hence, it follows that, as stated in Buckley's treatise on the English Companies' Acts, "the ascertainment of Profit is in every case necessarily a matter of estimate and opinion. * * * The legitimate way is to take the facts as they actually stand and after forming an estimate of the assets as they actually exist" (and presumably, although it is not so stated, of the liabilities) "show a balance so as to ascertain the result in the shape of Profit and Loss."

This definition would permit any business concern to revalue periodically the whole of its assets and liabilities and to record the difference between its surplus so ascertained at the commencement and the end of the year as its Profit or Loss, respectively; and provided that this estimate were fairly and reasonably made, there would be no objection to such a course. In other words, every appreciation of assets is a Profit, and every depreciation a Loss; and in many private concerns this method, technically known as "Single Entry," of ascertaining Profits has been regularly adopted for years without bad results. A corporation, however, being endowed by Statute with special privileges is subject to special restrictions, among others that of a definite fixed Capital Stock upon which dividends are declared out of the Profits of the undertaking. Hence, the consideration of Profits as applied to a corporation involves the consideration also of the limitations placed either by law or by sound principles of accounting upon their distribution as dividends. It is in the legal interpretation of the term Profits of a corporation (which has come to mean Profits available for dividends), and in the distinction between the strictly legal and conservative accounting view of the principles upon which they should be ascertained that the difficulties of the subject chiefly lie.

LEGAL PRACTICES.

The law, represented mainly by Case Law, has considerably modified the definition given above; and as up to the present time a larger number of cases have been decided and more definite results arrived at by the English than by the American Courts, it will be useful here to consider briefly the present condition of the English Law on the subject. The decisions given there have been based on the principles of Common Law

rather than on statutes relating to corporations, and these decisions are freely quoted in American text books, which though in slightly different form appear to arrive at substantially the same conclusions. The summaries which follow are given with some hesitation in view of the difficulty of extracting definite principles from a number of more or less conflicting decisions, but they will at any rate serve to illustrate the difficulties which have to be met.

ENGLISH LAW. The regulations of a corporation in England usually provide that no dividends shall be paid except out of *profits arising from the business of the corporation*. In order to carry on its business a corporation requires certain Capital or Fixed Assets, which must be maintained in a reasonable state of efficiency as long as the business continues; while its Profits or Losses arise from the employment of its Fixed Assets in continuously changing the condition of its Current or Circulating Assets from one form to another, and consist of the difference between the realizable values in the final and in the original condition, subject to deduction of the cost of the change and the expenses of realization.

Changes in the value of Capital Assets are not generally realizable during the continuance of the business, and hence in the determination of Profits available for dividend under the above regulation no increment in the value of its Capital Assets can be considered; but it would seem to be legally permissible to divide among Stockholders as dividend a realized profit on the sale of a Fixed Asset if there were no depreciation on other Fixed Assets to be made good. On the other hand, it is not necessary to charge Trading Profits with any decrement of value not due to causes arising directly out of the business; but any waste of Fixed Assets taking place in the operation of deriving Profits out of the Circulating Assets must generally speaking be made good out of Profits. There is, however, an exception to this rule when the constitution of the corporation contemplates the investment of its Capital in certain specified Wasting Assets—such for instance as Mines—and its regulations do not call for any provision out of Profits to replace this waste by means of a Sinking Fund or otherwise; in such cases the English Courts have held that there is no legal obligation to charge the waste against Profits earned from the operations. But this exception does not cover depreciation of Capital Assets due to wear and tear which has not been, but must at some future date, be repaired if efficiency is to be maintained. In the case of Circulating Assets the position is different. The enhancement in the value of these Assets being the source of the Profits of the business, it is necessary and the law requires that they shall be maintained intact, and that only the surplus realizable in excess of the amount invested is Profit; or, conversely, that any deficit is a Loss.

The exact distinction between Capital and Current Assets depends necessarily on the nature of the business of the corporation. What are Capital Assets for one business may be Current Assets for another, according as the business of the corporation is to make a Profit by using them

continuously in their existing shape or by converting them into some other shape. For instance, if a corporation owns investments for the purpose merely of collecting the dividends thereon, and dividing these among its stockholders, it is not legally bound to make good out of Profits a fall in the value of the investments. But if its business were to traffic in investments, or if it were in fact trafficking in them, any fall in value would be a Loss, and any rise in value a Profit, chargeable or creditable to Profit and Loss.

Apart from the distinction between Capital and Current Assets the following legal principles would seem to be fairly established:

The ascertainment of Profit being necessarily a matter of estimate and opinion, all that is required is that the estimates be fairly and honestly made without any fraudulent intention or purpose of deceiving any one, and that they conform to the constitution of the corporation.

The payment of interest to Stockholders before any Profits have been realized is stated to be *ultra vires*; but interest paid on borrowed Capital employed in the construction of Works, and in the meantime unproductive, may be properly chargeable to Capital Account; and it is perhaps doubtful (although there appears to be no decision on this point) whether under such circumstances interest might not be paid to Stockholders and charged to Capital if the regulations expressly provided therefor.

It also seems probable that a corporation having made a Loss on the operations of previous years, and commencing the year with a deficit in its Circulating Capital, may legally distribute dividends to its Stockholders out of current year's Profits without making good such deficit. In one recent decision on this point a deficit of previous years is treated as a Loss of Capital Assets, and it is stated that the Capital having been lost a distribution of subsequently earned Profits cannot be a payment of dividend out of Capital that had been previously lost.

AMERICAN LAW. The general law of this country as laid down in the chief text books is based as before stated to a considerable extent on the decisions in the English Courts referred to above.

Dividends can be paid only out of Profits—i. e., out of the net increase in the original investment after deducting from the Assets all present debts and making provision for future or contingent claims reduced to their present value. But in arriving at this increase the Permanent or Fixed Capital may be valued at the price actually paid for it, although at the time of estimating said increase it could only be sold at a loss. All that is required is that the whole capital originally contributed by the Stockholders shall be put into the business and kept there, and that no part of it shall be taken out again directly or indirectly and given back to them. On the other hand, any depreciation due to wear and tear arising out of the use of the Fixed Assets must be made good out of earnings before the surplus can be applied to the payment of any dividend unless these Fixed Assets are of a wasting nature, such as Mines. There seems also to be a consensus of opinion that dividends can only be paid out of the surplus Profits derived

from the use of the Capital of the company for those purposes for which the corporation was constituted.

The Statute Laws vary in every state, but the above principles seem to apply generally, with the exception of certain classes of business governed by special laws;—such as Banks, which may not pay dividends out of interest accrued, but not received, however well secured, and Insurance Companies, which may not distribute unearned premiums; and in Connecticut it has been held that if at the time of declaration of a dividend the property is not actually worth the par value of the stock which was issued for it, the dividend is illegal.

ACCOUNTING PRINCIPLES.

From an accounting standpoint, perhaps the only exception that can be taken to the law as at present interpreted is that the latter does not require the maintenance of Wasting Fixed Assets which are used up by slow degrees in the process of earning Profits. On practical if not on theoretical grounds, the principle must be accepted that a decrease in value of Fixed Assets not of a wasting character arising otherwise than in the process of earning Profits need not be provided for. It is true that in the long run all shrinkage of these Assets is a Loss, and that no Profits can be earned over the whole life of a corporation unless its Capital, both Fixed and Circulating, is maintained intact. But the changes in actual values of Capital Assets due to lower range of prices, introduction of improved processes of manufacture, etc., may be so great and at the same time so indefinite, and the actual realization thereof is as a rule deferred to such distant periods, that it becomes quite impracticable to provide for it as a direct charge against Profits; although it is a prudent course to accumulate a sufficiently large Reserve or Surplus Fund, and to make such liberal provision for Depreciation, as will insure the integrity of the Investment and provide ample funds for keeping it continually in the highest state of efficiency.

The sound accounting principles for the determination of Profits may be summed up as follows:

(1) All waste, both of Fixed and Circulating Assets, incident to the process of earning Profits by the conversion of Circulating Assets must be made good out of the Profits earned.

(2) Profits realized on sales of Fixed Assets should be first applied to make good estimated depreciation (if any) in other Fixed Assets not resulting from the ordinary conduct of the business. If there is no such depreciation, such Profits may be distributed as dividends, but should be distinguished from the Operating Profits.

(3) A sufficient surplus should be accumulated (in addition to the provisions required to maintain Wasting Capital Assets under Clause 1) for the purpose of making good Losses due to shrinkage in values of Fixed Assets arising from causes other than the ordinary operations of the Company.

ACCOUNTING PRACTICE.

Turning now to the practical, as opposed to the theoretical view of the question, it will be useful to consider the different elements which enter into the determination of the Profits of a corporation from the point of view of the maintenance of Assets, discussing shortly the principles of valuation which should be adopted for the various Assets and Liabilities in a Balance Sheet, and the effect which each would have on the Profits. If the Balance Sheets at the beginning and end of a period are theoretically and practically accurate, and show the true financial position at those dates, the increase or decrease of the surplus, after allowing for distributions of Profit during the interval, represents the true Profit or Loss for the period. The different captions will be dealt with in the order in which they would usually be stated.

CAPITAL OR FIXED ASSETS.

These would in general consist of one or more of the following classes: Real Estate, Buildings, Plant, Machinery, Tools, Patents, and last but not always least, Goodwill and Franchises.

Dealing with the first five items it may be stated generally that it is not proper for a corporation to take credit for a Profit, nor on the other hand is it necessary for it to charge itself with a Loss, arising out of a revaluation of such items as long as they are in actual use for the purposes of the business; but here it should be noted that if the business includes among its objects the purchase and sale of Assets of this class they should then be considered not as Fixed but as Current or Circulating Assets, being in fact stock in trade, the turning over of which is expected to result in Profits or Losses to the company. The Fixed Assets now under consideration are those which during the life of the business will remain, whether in their present or some other shape, in a permanent condition, provided that due provision is made for wear and tear or other waste due to operations.

DEPRECIATION. This raises an issue of great importance, so far as profit is concerned, in dealing with this portion of the company's property. As distinct from fluctuations due to rise or fall in values, there is continually in progress in the case of all property except land a waste due to the use of these properties for the purpose of earning Profits. In accordance with the accounting principles already laid down, this waste must be provided for out of the resulting Profits, or if there have been no profits, the Losses are really so much more by the amount of waste resulting from the operations.

No provision as a rule requires to be made for depreciation of Real Estate, except in the case of Leaseholds, Minerals, Timber or other similar property. A purchase of Leasehold Property is in effect a payment of rent in advance, and the equivalent rent on an actuarial basis should be charged each year against Profits.

In the case of Minerals, the product taken out of the land becomes the stock in trade of a corporation as soon as it is extracted, and whatever the land was worth before its extraction it is clearly worth an appreciable amount less thereafter. The provision to be made should be on the basis of the number of tons extracted, having regard to the total tonnage available and to the realizable value of the property after the Minerals have all been extracted. The same principle would also apply to timberlands, where no provision is made for re-forestation. The contention is sometimes made that no provision need be made for exhaustion of minerals where the amount of mineral known to be in a definite tract at the end of any period is largely in excess of that which had been discovered at the beginning of the period. This argument cannot, however, for a moment be admitted except as a reason for reducing the tonnage rate to be provided. As a general principle, whatever there was in the land, whether known or unknown, has been reduced during the period under consideration by whatever amount has been extracted; and while the new discoveries may be accepted as reducing the necessary rate of provision for extinction from (say) one dollar to one cent per ton, the original principle that provision must be made holds good on the smaller figure, whatever it is. It may be, of course, that the provisions made in earlier years have been sufficient to cover a number of future years on the basis, from the commencement, of the rate subsequently found to be sufficient in view of the new discoveries, and in this case there is obviously no necessity to provide further for extinction until the total production at the new rate is equal to the total amount written off.

It would be beyond the scope of this paper to discuss what the different rates of depreciation on different classes of property should be, but it is necessary to emphasize the fact that however long the life of the buildings or plant, and however much may be spent year by year in the actual upkeep thereof, there must be a gradual depreciation in value, due either to direct wear and tear or to the necessity of replacing old and obsolete articles by new and up-to-date ones. It is probable, however, that in any going concern which is maintained in an efficient condition there is a limit to the total amount of this depreciation as between original cost and present value; in fact, the theory that any piece of machinery or any building continues in use until it reaches an absolute scrap value is not in accord with practical experience, taking any plant as a whole. When the plant is entirely new it may properly be considered as being worth its cost. It will never again attain this standard, because never again will the whole of it be absolutely new; on the other hand, it can never fall below a certain percentage of this standard without becoming so inefficient that it could not be operated at all. Between these limits, therefore, would seem to lie the total amount of depreciation to be provided out of earnings over a long period of years, assuming that all renewal expenditure tending to increase the life of the plant is charged against the depreciation so provided. It is submitted that perhaps the most satisfactory way of making such provision is in the first instance to estimate the life of the different Assets, assuming that ordinary recurring maintenance and renewal charges are provided out of Profits as they occur, and to set aside each year the cor-

responding proportion of the original cost, crediting the same to a depreciation fund. From time to time expenditures which may be termed "extraordinary renewals" or "periodical renewals" will require to be made, which from their nature increase the original life of the plant. These should be charged against the fund provided. In this manner an equitable charge would be made against earnings each year to represent the amount of wear and tear that has accrued during the year. In many cases, in place of a basis of life in years, one in tons operated will be found preferable, in which case the charge against Profits would take the form of a rate per ton of production rather than a rate per year of life. There are other methods in force for properly providing for this wear and tear, but there is one method which it may safely be stated is an entirely erroneous one, and that is to set aside such sums as the Directors may decide upon out of the Profits of each year upon no definite basis whatever. A decision as to the period at which the necessary charge should be made against Profits must be admitted to be largely within the discretion of the Managers, for the reason that they have to consider not only sound principles of accounting, but also policy; but it is not inconsistent with this proposition, and is certainly more scientific, to adopt a sound and conservative basis in the first instance and create in the books a subsidiary Suspense Account of the proper amount each year which would be discharged by appropriations made from time to time out of surplus Profits. Such a course is, however, at best, a makeshift and it is the duty of all Accountants, though they cannot compel, at least to urge, corporations to make adequate provision for depreciation each year.

The remaining items included in Capital Assets, viz.:

PATENTS, Patents, Goodwill and Franchises, are very much akin to
GOODWILL AND one another. Theoretically it would seem that if a patent
FRANCHISES. be granted for a term of years the amount paid for it should be written off against the Profits earned during those years. But practically it is found that by the time the original patent has expired the corporation may have built up a practical monopoly, or at any rate such a lucrative business that the original cost of the patent is now replaced by the admitted value of the goodwill. Moreover, it is seldom the case that one patent stands by itself; during its life probably many others have been taken out representing modifications which extend the life of the original in an improved form, and these may have cost small sums as compared with the very much larger cost of the original.

Goodwill represents the value of the trade name, business connection and organization of the corporation's undertaking. As long as the earnings of the business are maintained at not less than the level contemplated at date of purchase, it is impossible to allege any depreciation of value or the necessity of any provision therefor. On the other hand, if any serious depreciation has taken place, the Profits are probably so much reduced that it is not possible to make such provision. Goodwill is in fact a Fixed Asset whose value is to some extent dependent upon the profits earned, its fluctuations being consequent upon and not a cause of the earning of

Profits, as are Wasting or partially Wasting Assets, and not therefore to be taken into account in ascertaining them.

Franchises may be either perpetual or for a fixed term. In the former case, the same considerations would apply as in the case of Goodwill. In the latter case, they may be renewed or terminated at the expiry of the fixed term, and prudence would dictate a reasonable provision each year out of Surplus Profits, although no definite amount may be ascertainable.

Provided therefore that the wise policy is followed of writing off at once all expenditure on new patents which do not turn out useful, or which supersede or modify older ones, and provided also that the principle is admitted of building up a substantial reserve fund against whatever portion of the Capital is invested in this class of Assets, it would seem reasonable to merge the three items into one and treat them as part of the permanent invested Capital of the business, which may be left to continue at its original value as long as the business is a going concern.

In completing the survey of the conditions so far as
CAPITAL regards Capital Assets, it is well to consider what expendi-
EXPENDITURE. tures may reasonably be added to the original investment
of Capital, instead of being charged against Profits.
These expenditures may be divided into the following general classes:

(a) Actual additions to the property, such as new buildings, new engines or new tools, which did not exist before, or additions to existing articles of this class. All such expenditure would be at once admitted as a proper charge to Capital Account.

(b) Alterations to Capital Assets resulting in increased capacity, some portion but not the whole of which may in most cases be charged to Capital Account.

(c) Alterations to Capital Assets resulting not in increased capacity but in a lower cost of output. Such items are frequently treated as additions to Capital Account, even by conservative corporations, but it may be doubted whether they should not rather be considered as operating expenses paid in advance, especially if, as in most manufacturing concerns, the processes to which the improvements are applied have only a limited life, after which they will be superseded by other and more modern ways of doing the same thing. In other words, the most conservative way of treating this class of expenditures would be to consider them as deferred charges to operating to be written off over a definite term of years against Profits. Among this class may be mentioned change of grade or alignment in railroads which is too frequently treated as a Capital charge; the shifting of machinery from one position to another, or a general re-arrangement of a factory; as well as stripping and development work on mineral lands, which is of a Capital nature in so far as it is money sunk in the property prior to taking anything out of it, but in all conservatively managed mines is treated in the way indicated above.

(d) Alterations to Capital Assets resulting partly in increased output and partly in decreased operating expenses. In this class much must depend on the nature of the expenditure, but a division between Capital

and Operating Accounts on some definite basis arrived at on the principles outlined in (b) and (c) would as a rule be fair and conservative treatment.

(e) Exceptional and extraordinary renewals of existing Assets resulting partly in the increased capacity necessary in order to keep pace with more modern plants, partly in diminished operating expenses and partly in a mere replacement. Such expenditures include the modernizing of a property necessary to prevent or to repair a deterioration in its value, due either to the competition of more modern properties or to the greater demands of the public, and consequently not resulting in increased earnings. Here again many corporations will charge part of such expenditures to Capital Account, and would be legally justified in so doing; but undoubtedly the safe and conservative course is to charge them wholly against Profits through the medium of a Depreciation or Improvement Fund.

(f) Finally, we have ordinary replacements, repairs and renewals recurrent either at long or short intervals, and resulting neither in increased capacity nor in saving in operating expenses. Such would always be a charge against Profits, either through the Depreciation Fund or direct, according to the nature of the outlay.

It is important to note that the charges made under any of the above headings should be cost only and should not include any addition by way of Profit. The operation is merely a conversion of Current into Fixed Assets, upon which no Profit can be realized as long as the Asset is maintained. Possibly, however, where a corporation employs in the erection of plant for its own purposes facilities which it would otherwise be employing in similar erections for outsiders at a Profit, it would be fair, although not conservative, to consider a reasonable charge for the use of these facilities as part of the cost of erection. Also when special loans are raised for construction purposes, the interest on such loans during the period of construction would fairly be part of the cost.

If Fixed Assets, becoming unnecessary for the purposes of the business, are sold or are abandoned and dismantled, the question arises whether Profit or Loss arising therefrom should be added to or deducted from the Profit arising from the general operations. Legally, if as a result of a revaluation of Capital Assets a surplus was found to exist, the realized portion thereof may probably be treated as a Profit, but not otherwise; and on the other hand there would not appear to be any legal necessity to provide for a Loss. As a matter of accounting, the safe policy is to carry forward Profits and provide for Losses, but the circumstances in each case must be considered. Where the Losses are large, as in the case of the dismantling of a whole plant, it would be sufficient to provide for it gradually out of the Profits of a series of years.

CURRENT ASSETS.

Current Assets may be dealt with under the following main headings:

1. Stocks on hand, including Raw Materials, Work in Progress and Partly Finished and Finished Products.
2. Bills and Accounts Receivable.
3. Marketable Investments.
4. Cash.

STOCKS ON HAND. Perhaps one of the most difficult questions which Accountants have to decide is the correct enumeration and valuation of Stocks on Hand. The theory governing the valuation of this Asset is that, inasmuch as no Profits can be realized until the goods are actually sold, it is not safe to take credit for any Profit thereon until a sale has been effected; that therefore it should be carried forward at the exact cost and no Profit thereon brought into the accounts of the fiscal period. On the other hand, it may be found that the prices both of the Raw Materials and the Finished Product have at the close of the fiscal period fallen below their cost, and while it is impossible to say until the goods have been sold whether any Loss will ultimately be made thereon, at any rate there is a possibility thereof. It is therefore conservative to set aside a sufficient reserve out of Profits which have been realized on goods already sold to provide for the accruing Loss on those which remain in hand. Hence the general rule for valuation of Stocks on hand, namely, "cost or market, whichever is the lower," has been evolved and is adopted by the most conservative commercial institutions. Unfortunately, in practice, many concerns are unable to ascertain the cost of their various products, with the result that their stock valuations are based entirely on estimates of costs made with more or less accuracy. There does not appear to be any legal obligation on a corporation to adopt any particular basis, provided that the price adopted is not in excess of that ultimately realized after deduction of any subsequent cost of completion, storage and sale; but the absence of approximately exact knowledge as to the cost frequently leads to disappointment, both to the directors and stockholders, and even to serious financial loss. It is obvious that a constantly changing basis of cost must lead to serious inequalities in the Profits shown between one period and another, but it is not equally obvious to the commercial community that an erroneous basis of valuation consistently adopted year after year, even if that basis be a conservative one and really below true cost, may result in large and unexpected discrepancies between the Profits shown in different periods. For instance, if Stocks be valued on a basis exceeding cost and the trade, and consequently the materials and products on hand, increase very rapidly for one or more years, the Profits during those years of increase will be abnormally inflated; but when the trade settles down to a comparatively steady turn-over there will be a considerable drop in the Profits as compared with the preceding year on the same amount of business done—a drop which the management as a rule will be unable to account for until an investigation by the Public Accountant discloses the true cause. On the other hand, if the Stocks be conservatively valued considerably below cost, the Profits of a year in which a small quantity of goods is carried over at the close of the year in com-

parison with the beginning will be inflated as compared with a succeeding year, when an opposite condition prevailed, although the sales and Profit thereon may have been the same in both years; thus entirely upsetting all the calculations and estimates of the managers. The essentials therefore for ascertaining correct Profits so far as Stocks on Hand are concerned are:

- (a) An accurate enumeration of the quantities on hand.
- (b) An accurate ascertainment of the actual cost of the different manufactured articles, either completed or in progress.
- (c) A specific reduction in the prices of raw materials of the amount by which the market valuations at the close of the fiscal period fell short of the cost.
- (d) A proper provision for all stock which is old or depreciated or for any reason likely to be unsalable.

The more exactly these different elements are ascertained, the more accurate will be the resulting statements of Profits, and if the special reserves be made separately, it will be an easy matter to compare usefully one period with another.

Finally, it should be noted that it is not essential, and in fact it will frequently be incorrect, to value Materials and Products on Hand at the end of the fiscal period upon the same price basis as at the commencement of that period; all that is necessary or proper is that the basis of valuation—that is to say, the principles on which the values are arrived at—should be the same at the beginning and end of the period, the actual prices usually varying from one year to another.

In this connection, it is important to consider to what extent it is permissible to anticipate Profits on work in progress, particularly when the work is being carried out under definite contracts, and when it may perhaps reasonably be contended that at any rate some portion of the Profit is earned at the time when the work is performed. It is quite a frequent practice where contract work extends over long periods of time to estimate and bring into account some portion of the Profit proportionate to the cost for any period, and there does not appear to be any objection in principle to the adoption of this practice. On the other hand it is undoubtedly more conservative not to take credit for any such Profit until the whole contract is completed. An added reason for this course is that unforeseen contingencies are continually arising during the progress of the work with the result that what was originally expected to realize a Profit may in the end result in a Loss. It is true that the more conservative course may cause large inequalities in the amount of Profit shown for successive periods; but if the accounts are stated on a basis of total work completed less cost thereof, the reasons for the fluctuations, as well as the advantages of more rapid completion are apparent.

If, however, estimates of Profits on pending contracts are to be taken into account, it is of the utmost importance that such should be made on an ultra conservative basis, and further, that estimated Losses should be fully provided for. Neglect of this precaution may easily lead to disaster.

While therefore under certain conditions no objection can be taken to

the inclusion in a Profit and Loss Account of Profits on Work in Progress, a sound conservative policy would be against such a practice on the ground:

1. That the best estimates are misleading.
2. That such Profits are not in most cases yet realized and cannot therefore be employed in payment of dividends except by a corresponding increase in Working Capital.
3. That the Asset of Work in Progress is unduly swelled by an addition that may perhaps never be realized.

Profits cannot be definitely ascertained until they have been converted into Cash or into some recognized form of negotiable instrument of definite and fixed value, but the usual practice is to consider the Profit realized when a sale takes place and the amount of the sale price is charged to the purchaser. It is essential to an exact determination of Profits to ascertain that as far as possible the purchaser's obligation is good for the face value of the charge made. This is necessarily a matter of estimate and involves two considerations:

- (a) An estimate of the ability of the purchaser to pay the amount he has contracted to pay within the time contemplated.
- (b) An estimate of the amount which a debt incurred in a foreign currency may be expected to realize in the standard of the home country at the time when the debt is paid by the purchaser.

On the principle of cost or market valuation, whichever is the lower, the conservative and safe course is to make a reserve sufficient to provide for all discounts that will be allowed and for any debts known to be of a doubtful character; or to build up a general reserve fund against such Losses, on the basis of a percentage on the sales of each year. From the legal point of view, all that would seem necessary would be to make a fair estimate of what each debt might be expected to realize in the currency of the home country, allowing for the time estimated to elapse before collection; but a corporation should aim at a more conservative policy than this, and should not be contented with the minimum amount of reserve which it might be legally called upon to make.

The term Marketable Investments is intended to include only such investments as are part of the Circulating as distinct from the Fixed Assets. The latter class of investments may be defined as those which cannot be disposed of without affecting the operations, for the reason that the ownership thereof in a permanent form is necessary, however remotely, to the business which the corporation is carrying on. Their valuation would be governed by the same principles as have been outlined above for other Fixed Assets.

Marketable Investments, on the other hand, may be either:

- (a) The stock in trade of the corporation, or

- (b) The investment of surplus cash held in this form until required for ordinary operating purposes, or
- (c) The investment of a Reserve or other special fund.

In case (a) the rule of cost or market value, whichever is the lower, applied to each individual investment and not to the group as a whole, is undoubtedly the most conservative. That is to say, no Profit could be taken up on any investment until it is sold, but on the other hand, where the value has clearly fallen, some provision should be made therefor. Where, however, the investments all have a definitely ascertainable market value at any time, it is perhaps fair and reasonable to allow a fall in value of some individual investments to be set off against a rise in value of others, provided that the aggregate valuation is not above original cost or market value, whichever is the lower.

In case (b) the usual custom is to value at the mean market price on the last day of the fiscal period for the reason that the investments represent the equivalent of cash and should therefore be maintained at their cash value in the Balance Sheet.

In case (c) any Profit or Loss, either realized or estimated, would be a credit or charge to that fund, and not to the Profit and Loss Account. But in the Balance Sheet such investments should either be clearly stated as maintained at cost or preferably be adjusted each year to the aggregate market value if below cost.

Another method of dealing with the fluctuations of Marketable Investments of classes (b) and (c) is to create an investment fluctuation reserve, either out of estimated or realized Profits on investments, or by a charge to Profit and Loss of such an amount as may be necessary to prevent this reserve from showing a debit balance, and by charges or credits to this reserve to maintain the Asset at market value.

CASH. This item is the only one which may be said really to represent actual fact as expressed in money value, except when it consists of currency of a foreign country, at a variable rate of exchange. This latter subject is referred to later.

LIABILITIES.

Inasmuch as the liabilities of a corporation are with very few exceptions definitely ascertainable amounts, no question of principle arises thereon in connection with the ascertainment of Profits or Losses except that the omission of any liabilities or an overstatement thereof would necessarily increase or diminish the Profits respectively. There are, however, some important questions in connection therewith, viz.: The proper treatment of Premiums and Discounts on Stocks and Bonds issued, Sinking Funds and Secret Reserves.

PREMIUMS If Stocks or Bonds are issued for the purchase of any
AND DISCOUNTS definite property, it may be presumed that the property
ON STOCKS is worth the par value thereof. But when they are issued
AND BONDS. for cash or a cash equivalent differing from their face
 value, important questions arise.

So far as Stocks are concerned, it is doubtful how far an issue thereof at a discount is legal at all, and whether if so issued the purchaser or holder is not liable to pay up the whole of the discount, at any rate on liquidation of the corporation. This is the law in England with the exception that it is now legal for a corporation to pay a reasonable commission for services in placing its Stock, and it is also the statute law of some states in this country, notably New York. Discount on Stock would therefore either be an Asset of the corporation recoverable from some person or persons and not chargeable to Profit and Loss, or the liability on the stock would be the amount actually paid for it. Premiums on Stocks Issued are clearly a source of surplus to the corporation eventually, because they are cash received in excess of the authorized Capital which must be maintained intact, but they are not Profit on operations and should not therefore be credited to Profit and Loss, although they may presumably be applied to make good Depreciation in Fixed Assets or exceptional losses, not arising out of the ordinary business of the corporation.

Premium and Discount on Bonds is a deduction from or addition to the rate of interest which the Bond carries; that is to say, there is a rate at which any corporation can place its Bonds at par; if it elects to place them at any other rate the Bonds will sell at a premium or discount as the case may be; but the true rate remains the same and this true rate is the proper charge to Profit and Loss Account. Hence the premium or discount should be spread over the term of the Bonds and the annual installment thereof credited or charged to Profit and Loss each year.

SINKING FUNDS Sinking Funds or Debt Extinguishment Funds are
FOR REDEMPTION not in theory a charge against Profit and Loss, for the
OF DEBT. reason that they do not represent a loss or expense, but
 the extinction of an existing liability. Inasmuch, how-
 ever, as in most cases the only source out of which such
 redemption fund can be provided is the surplus earnings, it is usual to insert a provision in Trust Deeds that the Sinking Fund is to be provided out of the Profits of the year. The discharge of Liabilities involves either a corresponding reduction in Assets or the accumulation of other Liabilities or surplus. A reduction in Current Assets or the accumulation of other Liabilities as a substitute for Bonded Indebtedness is clearly undesirable, and it is therefore necessary that the amount applied each year to Sinking Fund purposes should be transferred from Profit and Loss either to a special Reserve Fund or in reduction of some Fixed Asset account by way of provision for depreciation or otherwise. It must, however, be remembered that such provision for depreciation will be to that extent represented by Capital instead of Current Assets, and while there is no theoretical objection to this if the Depreciation Fund is sufficiently large, the

latter necessarily ceases to be available in cash for one of its principal purposes, viz., the renewal of various Capital Assets from time to time. If, however, part of the Fixed Assets are of a wasting character, the Sinking Fund may be quite safely applied in reduction thereof, or it may with equal propriety be applied in reduction of Goodwill or Patents. The safest way undoubtedly therefore in every case is to charge the Sinking Fund installment to Profit and Loss each year, and either credit it to a special Sinking Fund Reserve or apply it as Depreciation of some Fixed Asset for the renewal of which no cash expenditure will be required in the future.

SECRET There is a general consensus of opinion that an overstate-
RESERVES. ment of Profits knowingly made is improper, but the opposite
proposition as to an understatement of Profits has so far re-
ceived little consideration, and yet it is of considerable im-
portance. Corporations are the property of the stockholders, and therefore
primarily anything which the stockholders or the directors elected by them
may approve may be considered to be within their power to decide as they
like, provided that it is within the law; and it is not suggested that there
is any general law which would prohibit an understatement of Profits, as it
would undoubtedly prohibit an overstatement. But inasmuch as the stocks
of the majority of corporations are quoted on the Stock Exchanges
throughout the country, the corporation is in some sense the property also
of the public. It becomes therefore a great question to what extent it is
legitimate or proper that it should publish a statement of its earnings or its
position which materially underestimates either; and yet it is obviously
within the discretion of the managers or directors to make reserves to
meet possible contingencies, and the constitution and by-laws of most
corporations give them such powers. Secret reserves may take several
forms, such as writing down to a comparatively small figure valuable
Assets, providing excessive depreciation, providing excessive reserves for
bad debts, or contingencies, valuing stocks of materials and products on
hand at a large reduction from cost, or including special reserves under the
head of Accounts Payable. Inasmuch as the majority of industrial corpora-
tions do not publish their gross earnings, such reserves can easily be made
and are made continually in a form in which they do not appear in any
way in the accounts, and are known therefore only to the directors and
managers.

Each case must be judged on its own merits. Where the directors or
managers have exercised a wise discretion in providing in advance for
contingent Losses which are incident to the nature of the business and
cannot, from a reasonable point of view, be considered as in excess of the
amounts which a wise foresight would provide, it would seem that no
exception should be taken to the undisclosed provision thereof. Where,
however, reserves are made largely in excess of any possible contingencies,
the amounts provided should be disclosed in the Profit and Loss Account
and probably also in the Balance Sheet, so that all those interested may be
in a position to form a reasonably correct opinion as to the financial posi-

tion. For instance, a business such as Banking is from its nature peculiarly liable to large and unexpected Losses, the disclosure of which might prejudicially affect its credit and position in the eyes of the public and of its depositors, and possibly cause a disaster out of all proportion to the cause; and it is therefore obviously sound policy to accumulate such ample reserves as will enable Losses to be met without any apparent disturbance of normal conditions; but so far as the majority of corporations and businesses are concerned, publicity in such matters is undoubtedly most desirable, and all reserves to meet contingencies which may occur in the future, but have not yet occurred, should be fully disclosed.

FLUCTUATIONS IN EXCHANGE.

When a corporation is carrying on business in a foreign country the rate of exchange exercises a considerable effect on the valuation of its Assets and consequently on its Profits. This question is sufficient in itself to form the subject of an entire paper, and it is only possible here to state quite shortly the general principles which should govern its treatment. Where operations are carried on in a foreign country, the object should be to obtain as nearly as possible an exact equivalent in the home country of all revenue earned or expenditure incurred in the foreign country. So long as a transaction originates and is completed in the foreign country, no question of exchange comes into the calculation. Where, however, in the process of its completion it passes from one country to another, a change in the basis of value occurs, which must be reflected in the accounts. The nearest approach to accuracy will be obtained by taking up the foreign item into the home currency at the rate of exchange of the day on which the transaction represented by that value passed from one country to the other. This would result over a given period in a certain average rate of exchange for all transactions. In the case of capital expenditure, it is probably wise to make that period as short as possible, say monthly. In the case of Profit and Loss items, it is probably sufficient to make it a year or half year. If the conversions at monthly intervals be used in arriving at the average rate of exchange for the year and the Current Assets and Liabilities existing at the end of the year as well as the Profit and Loss items be converted at that average rate, all the operations in the foreign country will be found to have been converted into the home currency at very close to the true rate and there will be no difference, or as it is commonly called, Profit or Loss on Exchange. Inasmuch, however, as this average rate may vary considerably from the actual rate on the last day of the fiscal year, it is further customary in preparing a Balance Sheet to reconvert the Current Assets and Liabilities at the latter rate, and the difference between this conversion and that made at the average rate for the year represents an actual Profit or Loss which would be made if the whole of the Assets or Liabilities were converted into the home currency on that day. This revaluation is necessary in order that the Balance Sheet may show the actual net realizable value of the corporation's Current Assets; and the Profit or Loss thereon is invariably considered a credit or charge to the Profit and Loss Account for the fiscal period. Fixed Capital, on the

contrary, if recorded permanently in the currency of the foreign country, should be maintained on the basis of original cost without any change from the original rate; and as this gives rise to difficulties it is preferable that such Assets should always be permanently recorded in the home currency.

FORM OF PROFIT AND LOSS ACCOUNT.

Although the question of Profits has been considered from a Balance Sheet point of view, their presentation will always take the form of an Earnings Statement, each element in which will be accurately determined if due effect be given to the principles of valuations of Assets and Liabilities hitherto discussed. It will be useful now to consider shortly the form which such a Statement of Earnings should take.

The following, already in fairly general use, is submitted as perhaps the most complete short form, and by means of exhibits it is capable of amplification to any extent desirable:

Gross Earnings (whether sales of products, transportation earnings, professional earnings, etc.).....	\$.....
<i>Deduct</i> —Cost of Manufacture or Operation:	
(a) Manufacture (for a manufacturing concern):	
Labor	\$.....
Material .....	.....
General Manufacturing Expenses....	.....
(b) Cost of Operation (for concerns not manufacturing):	
(Under suitable headings according to the nature of the business).....	.....
	
Gross Profits.....	\$.....
Other Earnings.....	.....
	
	\$.....
<i>Deduct</i> —	
Expenses of sale (manufacturing business only)	\$.....
Expenses of management (if distinct from operation) .....	.....
	
Net Profits from Operations.....	\$.....
<i>Deduct</i> —	
Interest on Bonds.....	\$.....
Other Fixed Charges.....	.....
	

Surplus for the year.....	\$.....
Extraordinary Profits (detailed).....	.....
Surplus brought forward from preceding year.....	.....

\$.....

Deduct—

Extraordinary charges not applicable to the operations of the year.....	\$.....
Interest and Dividends on Stocks.....	.....

Surplus carried forward..... \$.....

A word of warning may not be out of place against the too common practice of throwing back extraordinary charges on to the previous year's surplus without sufficiently disclosing the same. Cases are frequent in which the earnings for a series of years have been made use of in the public press to show the operating results, and therefore incidentally the earning capacity of a business, while charges made in any year against surplus, on the ground that they appertain to the operations of a preceding year, have been altogether ignored. The form suggested above, if generally adopted, would prevent the possibility of any such misstatements, at any rate without a clear knowledge on the part of those making them that they were altogether misleading.

CONSOLIDATED EARNINGS STATEMENTS.

During the last few years the correct statement of the earnings of a company controlling a number of subsidiary companies has required much consideration. Legally, the earnings of such a corporation consist of the results of its own operations, together with any dividends which may be declared on the stocks which it owns in the subsidiary companies; and so long as these stocks represent only minority interests in companies which are not in any way controlled or operated by the directors of the holding company, it would seem that a Profit and Loss Account prepared in such a way would be a correct and proper statement from an accounting as well as from a legal point of view. During recent years, however, the practice of consolidating a number of concerns by a control of stock rather than by an absolute purchase of the business has grown into favor, and consequently it is usual to find the holding company owning either the whole or a large majority of the stocks of a number of companies doing a similar business, appointing the directors of these sub-companies, dictating their policy and generally acting in every way as if it absolutely owned the whole property. Under such conditions it is submitted that no Statement of Earnings can be considered correct which does not show in one account the Profits or Losses of the whole group of companies, irrespective of whether dividends have or have not been declared thereby. If this principle be not insisted upon, it is within the power of the directors of the

holding company to regulate its Profits according not to facts, but to their own wishes, by distributing or withholding dividends of the subsidiary companies; or even to largely overstate the Profits of the whole group by declaring large dividends in those sub-companies which have made Profits, while entirely omitting to make provision for Losses which have been made by other companies in the group. It is doubtful whether there is any existing law which could legally require a corporation to make up its Statement of Profits on the basis here suggested, but possibly it may eventually be found that the ordinary rule referred to at the commencement of this paper, of a reasonable valuation of Assets, may be made to cover this point for the following reasons:

It is clear that whatever the value of an investment in a corporation may be at a particular date, its value at any subsequent date (other things being equal) must be greater or less by the amount of the Profits or Losses made during the intervening period. Even if other conditions at the two dates are not the same, and, quite apart from any consideration of the earnings or losses during the intervening period, there is a considerable appreciation or depreciation in the investment, that appreciation or depreciation must undoubtedly be more or less, respectively, by reason of Profits earned or Losses incurred. In this case the change in value of the Asset is at any rate partly due to the result of the operations for the purpose of which the investment is held. On the general principle, therefore, that a Profit and Loss Account should take into account all Profits or Losses resulting from the trading operations, but should not take into account the Profits or Losses arising from a revaluation of Capital Assets, it may eventually be held, on legal as well as on accounting principles, that the Statement of Earnings presented by a holding company is not correct unless it takes into account by way of either a reserve or a direct addition to or deduction from the capital value of the investment the Profits or Losses made in operating the subsidiary companies.

One other difficult point is the determination of what is or is not a constituent company whose Profits and Losses should be brought into account in this manner. It is suggested that this depends partly on the proportion of stock owned and partly upon the degree of control exercised by the holding company. When the latter owns at least a majority of the stock, operates the company, dictates its policy and practically treats its property as its own, subject only to the right of the minority stockholders to receive a share of the Profits, the conditions would appear to be such as to require the proportion of Profits and Losses corresponding to the stock owned to be taken up; while, on the other hand, a mere majority ownership of stock without any effective control of the management and operation might properly be treated as an investment only, subject to the same rules as other investments of a similar character.

PROFITS EARNED BEFORE DATE OF FORMATION OF CORPORATION OR BEFORE DATE OF CONSOLIDATION.

Another question of considerable importance is that of the proper disposition of the Profits of consolidating companies earned prior to the date

of consolidation. There is a clear rule of common sense, and probably also of law, that a corporation cannot earn Profits before it exists, and when therefore a corporation at its organization purchases an undertaking, together with the Profits accrued from a certain prior date, the whole of such Profits earned prior to the date of purchase must be treated as a deduction from the purchase price and not as a credit to Profit and Loss or available for dividends.

This proposition is the more evident if it be remembered that these Profits form part of the Current Assets purchased, and that any realization thereof is merely a return to the purchasing company of a portion of the purchase money, *i. e.*, of the Capital of the corporation. Similar reasoning will show that where a holding corporation purchases the stocks of several others all Profits of the purchased corporations accruing up to the date of the purchase must be treated by the holding corporation as a deduction from the price paid. The subsidiary corporations can legally declare dividends therefrom, but these dividends when received by the holding corporation are merely a transfer to it of some of the Assets included in the value of the stock it purchased and are therefore a return of Capital; and dividends declared and paid by the holding corporation to its stockholders out of such Profits would clearly be paid out of Capital. It is important to note that the date of purchase should be taken as the date of the contract for purchase and not the date of completion. If the purchasing corporation was in existence at the date of entering into the contract, it is to be presumed that the price fixed had relation to the conditions existing at that date, and that the corporation is entitled to treat as Profits all earnings of the subsidiary corporations subsequent to that date. But if the holding corporation had no legal existence until a later date, it is submitted that as it cannot earn Profits when it is not in existence, it is only entitled to distribute as dividends Profits of the subsidiary corporations earned subsequent to the date of its own incorporation, or to the purchase of the property, whichever is the later date.

GENERAL CONCLUSIONS.

In concluding this paper, it is well perhaps to call attention to the difficulty of laying down strictly defined rules of accounting practice. In any question it is sufficiently difficult to distinguish between legal and illegal practice, but it is still more difficult to decide as to the propriety or otherwise from an accounting or commercial point of view of the course adopted. It may safely be said that no Public Accountant, acting in an impartial capacity, can reasonably object to a course adopted by the directors of a corporation which is clearly within their legal powers, provided that the directors fully appreciate all the facts and are exercising a wise and proper discretion in their manner of stating them. If, on the other hand, the Accountant has reasonable doubts on any of these points he is entitled, and it may even be his duty, to state his views in his report or certificate.

E. G. SHORROCK, C.P.A. of Seattle, Wash.—Mr. Chairman:
I move that ten minutes be allowed the opening speaker in the

discussion on Mr. Dickinson's paper, and that the members taking part in the general discussion shall be allowed three minutes each; the total time to be given to general discussion being limited to thirty minutes.

(Motion seconded, put to vote and carried.)

JOHN HYDE, F.C.A.—Mr. President and Gentlemen: Through the kindness of Mr. Dickinson I received a copy of his paper the day before yesterday, but as you are all aware, it was so warm that it was impossible to sit down and read or do anything. We have been so well treated by our friends in charge of this Congress that we had to enjoy ourselves and could not sit down to any business. Therefore it was only this morning that I had a few moments to spare to read over this paper, and I may say that we have been delighted at hearing the paper read, and further, any of us who have had the opportunity of reading the paper through, are well satisfied as to the result. I may say that I think that the Accountants of this Federation here assembled can coincide in a general way with every position Mr. Dickinson has taken. Of course there are some details in which there are differences of opinion, and I propose to touch upon a few of these points. Of course, Mr. Dickinson is writing from the standpoint, I presume, of an American Accountant, and I will probably be talking from the position of a Canadian Accountant. As our laws to some extent are different from those of the United States, where these differences apparently seem to appear between Mr. Dickinson and myself it is probably due to the difference in the laws of the two countries.

Now, the first point which I would like to emphasize is the position which Mr. Dickinson takes here upon the single entry bookkeeping system. In touching upon that point he says that there has no great harm been done in a great many cases by the use of the single entry system. This is a matter which we, as accountants, should, I think, frown upon.

Single entry, in its relation to the double entry, is just about in the same position as the colored boy, being asked as to how he was getting on in school by a friend of his who took a great deal of interest in the boy. He said: "How are you coming on in school?" "O, very well, sah; very well, sah." "How are you getting along in arithmetic?" "Well, I kin add up the naughts all right, but when it comes to the figgers I has a little trouble, sah." (Laughter.) With the single entry system we can draw

off, as it were, a balance sheet, and we can show that we have an excess of assets over liabilities; but unfortunately we have not got the material to prove the correctness of it. We should put our foot down firmly against the adoption of it, for I don't consider that single entry is a system at all.

Now, regarding the question of the payment of dividends from profits or capital, the law which we have in the Province of Quebec provides a very clear distinction. The distinction there is that no dividend shall be paid that will in any way impair the capital of the Company, and we have a penalty attached to that. If a Board of Directors at any time declare a dividend that will in any way impair the capital of the Company they are responsible personally for all the debts of that Company. They are not given the benefit of limiting their liability to the amount of their stock, but out of their personal pocket they have to pay all liabilities. So we have our Directors in Canada pretty well tied up on that question.

Now another point I should like to call attention to, is this question of the depreciation of plant and its treatment.

I think Mr. Dickinson has very well put it forward that we should treat that by setting a standard, or, in other words, when an Accountant is called in to audit the affairs of a company, and to prepare its statement, that he should insist upon a specific amount being retained each year out of profits to provide a Sinking Fund to cover any contingency whatever. Now, further, this depreciation we should keep in a separate account, for this reason: a manufacturing concern as long as it is a running business, has machinery which is worth to them one hundred cents on the dollar—it has been kept up in good repair at an expense every year. But some Accountants and bookkeepers and Managers charge to profit and loss and credit their plant account with the amount of depreciation. Consequently, in the event of a fire taking place, the Insurance Company meets them immediately with the amount they have in their books as representing the value of the plant, which it is not at all. So that we require the depreciation account to be kept in a separate account altogether from the plant and machinery. Now, the next point I should like to emphasize, is the question of treatment of good will. This is one that all Accountants are brought face to face with very often. The good will in the purchase of a running business is extremely difficult to fix as to its real intrinsic value, and therefore it becomes a question of whether that good will should not be written off through

the series of years of operation. But there is one thing that as Accountants I think we should insist upon: that in the Balance Sheet which we certify to, the amount shown as an Asset for good will shall be distinctly and clearly shown, and not, as is the custom now, to be brought in "Real Estate, Plant, Buildings and Good Will, \$5,000,000." Of that amount probably \$3,000,000 has been good will. Now, we should insist upon that being shown, \$2,000,000 for the plant, machinery, real estate and building, and \$3,000,000 for good will, so that the investing public may have before them clearly and specifically the fact that they are entering into a Company that has an asset of \$3,000,000 of good will.

Now, I should like to touch upon the question of the sinking fund which Mr. Dickinson has brought forward for the redemption of debts and the redemption of bonds. Mr. Dickinson seems to think that it would be perfectly fair to use that sinking fund for the purpose of paying for some losses occasioned by an extraordinary turn of affairs in the business; but it seems to me that it would be safer as Accountants to have that sinking fund made in the nature of special investments, and that those investments should be used to pay only the debt for which they have been raised, either by means of the bond itself, or in some other way, as provided by the regulations of the Company, because if the money which is taken out of Profit and Loss is simply converted into other assets of the Company, when the debt becomes due, unless you have a large cash balance on hand or have some liquid assets that you can turn very rapidly into money, you have nothing wherewith to meet the bonded indebtedness, or the debt that this fund was intended to provide for.

Now, I will only touch upon one other point, and that is the question of the treatment of stocks. There is only one point I would like to call attention to: that is, Mr. Dickinson says that in the treatment of raw material a deduction should be made to bring that down to the market price at the date the statement is made up, or the close of the fiscal year. The objection to that is that in some manufactories, such as cotton—especially cotton—it is a variable figure. One day it is up a cent and another day it is down a cent. Now, if we are going to take and change from the cost to the market value, then we would in addition have to treat the increase in values, so that as a matter of fact an Accountant would have to go over every item of the raw material, get the prices in the market for the day and see that the amount was

based upon the market prices. Now, it doesn't seem to me that that would add very much greater value to the stocktaking than if we continued that at the cost price. It would regulate itself every year, but I don't think that any great harm would be done if we would simply continue to put this in at the cost price.

Mr. President, I thank you. I did not expect to speak as long as this. I had no intention to do so. I am very much obliged to you for giving me the opportunity to say something on the question. It has been a pleasure to me to read the paper and to hear it read to-day.

CHAIRMAN.—We will now proceed to a discussion of this paper under the three-minute rule.

MR. CHASE.—I would like to ask one question. On page 15 Mr. Dickinson uses the term "Depreciation or Improvement Fund." I wish to ask whether he uses that in the technical sense of the word "fund." I find in my practice that it is a common custom to use the term "Fund" incorrectly, and it is so almost universally used on balance sheets in New England. It would be very good if we could have a correct use established.

MR. COOPER.—I would like to ask Mr. Dickinson, in connection with that part of his discourse in which he referred to the holding corporation—he speaks of the treatment of the earnings of subsidiary companies, and draws a line on the control of the stock being the basis for the accountant's judgment as to whether earnings of subsidiary companies should be treated as part of the whole.

I would like to know whether that is really a decision for the accountant's judgment or whether it is done under the advice of legal counsel. It seems to me there is a very broad question there.

MR. MONTGOMERY.—Regarding the point in Mr. Dickinson's paper on page 2, which Mr. Hyde referred to, regarding single entry accounting, I think that Mr. Dickinson merely referred to it as having been used in many cases without bad results. I think that is perfectly true. I think that in our present day, with the refinement of accounts, and the new labor saving devices and new systems being introduced, that we have gotten perhaps too far away from the time when simpler methods enabled our business men to conduct their business accounting upon a very good basis, and very many of them have just that sort of system. It does not necessarily mean it is a bad system or conducted improperly, for they do have good results in very many cases.

As to the English law, referred to on page 5, I may state that recently I saw a very well considered opinion written by one of the foremost corporation lawyers in the United States, in which he said it was his understanding of most of our corporation laws that so long as there was a debit balance to profit and loss, no matter whether it was the result of accumulation of years or not, the subsequent profits could not be paid out until these profits brought about a credit balance in profit and loss. I think that is of great interest to many accountants.

Just one other thing, and that is on page 8. Mr. Dickinson states that the captions are usually stated in the balance sheet in a certain order—in other words, we start with real estate, buildings, and other similar assets, and we finally come down to cash as the last item, and accounts and bills receivable as the immediately preceding item. I think that is hardly the general practice. I think the ordinary business man to whom our balance sheets go looks on it with better favor if the quick assets—the circulating assets—come first, and that among the liabilities those that are to be paid immediately should come first, such as accounts and bills payable, so that you have on the one hand the cash and accounts receivable, and the stocks on hand which are readily convertible into cash, and then follow it up with the fixed assets afterward, coming down to Good Will, and stating the same order on the other side among the liabilities. I think it conveys the status of the business better than the form in which Mr. Dickinson has stated in his paper.

ALFRED G. PLATT.—Looking at page 23, concerning Sinking Fund for Redemption of Debt, I don't think Mr. Dickinson has made it sufficiently clear as to what the Sinking Fund and the Reserve Fund for depreciation consist of. To my idea the sinking fund is an asset taken from resources of the corporation or concern and that the reserve fund is a liability. I think that clause should have been segregated. The sinking fund is a fund carried for the meeting of a liability, whereas the reserve fund is carried on the liability account to provide against depreciation of some fixed asset.

ALLEN R. SMART, C.P.A. (Chicago).—There is one point there I wish to call attention to on page 18, and would like Mr. Dickinson to give an explanation. I have in mind an iron and steel concern which carries raw material to the extent of possibly five thousand tons of pig iron, and the variation in the valuation of that

pig iron may be, between the beginning and the ending of the fiscal year, perhaps eight or ten dollars a ton, and when the market is rising there will be an apparent gain shown in the profits of perhaps \$25,000 on an increased valuation of \$5 or \$6 per ton in the market value. Now, if the market value has decreased the next year there is a corresponding decrease in profits, and as far as the stockholders in that concern go, when we start to explain that it is difficult for them to see it, they say: "We have done as much business as in former years; why should we not show as much profit?"

FRANCIS A. WRIGHT (Kansas City).—The question has been referred to by Mr. Montgomery in regard to not declaring dividends where there was a previous loss. I would like to ask whether it is our practice often to cover that by reductions of capital, that is, reducing the fixed capital in a reorganization and then declare dividends. I wish to know how far that is done. I have had cases in small concerns where that question has been raised.

MR. CHASE.—In practicing in the eastern part of the country, and I imagine many other accountants have had the same experience that I have had, we find that in smaller concerns—I mean from \$100,000 to \$1,000,000 capital—running ordinarily in a satisfactory condition, make no specific provisions for depreciation or for other losses of a like nature; but when that concern and others are consolidated into a trust and the capital stock is markedly increased so that earnings upon that capital stock must be squeezed out, then we find provisions for sinking funds for depreciation account coming in, so that often times the fact that a corporation carries out the accountant's ideas in regard to depreciation, is brought about by the necessities of the capitalization, and in the original condition, without provision for depreciation, the accountant would really be better satisfied with the management and with a truer sense certify to the balance sheet, because those allowances for depreciation, while not specifically provided for annually in the accounts, are most admirably provided for unconsciously by reserves of assets or by a large surplus.

CHAIRMAN.—As is well known to you all, Mr. Pixley, in addition to being a Fellow of the Institute of Chartered Accountants in England and Wales, is also a barrister-at-law, and he has kindly consented to say a few words to us in regard to the legal aspect of the question that has been raised here this morning.

MR. PIXLEY.—Mr. Chairman and Gentlemen: I am sorry to say that although I happen to be a member of the English Bar, I do not practice in that capacity, and I do not really claim that my knowledge of law is greater than that of any of the other practicing accountants. It is true that for the purposes of being called to the bar I had to read a certain amount of law that has been of the greatest assistance possible to me, but that is more ancient law, Roman law, and so on, and I have not kept myself acquainted with decided cases more than any other gentleman present who takes a general interest in his profession.

First of all, in regard to Mr. Dickinson's paper, I don't think there is a single point in it from my point of view, against which any serious argument could be raised. I think he has placed all his points on so thoroughly sound a basis that I do not think one of us could possibly raise objection to any doctrine he has laid down.

There is one little point on page 23. "Premiums on Stocks Issued are clearly a source of surplus to the corporation eventually, because they are cash received in excess of the authorized capital which must be maintained intact, but they are not profit on operations and should not, therefore, be credited to Profit and Loss, although they may presumably be applied to make good depreciation in fixed assets or exceptional losses, not arising out of the ordinary business of the corporation." I think there is no doubt whatever that that is the proper way of dealing with premiums arising on issues of shares. I think it ought to be the aim of the auditor to induce directors to make use of it either for creating a reserve fund or to add to and to strengthen an existing reserve fund or perhaps make use of it in the reduction of any special expenditure account. At the same time I believe that in England no valid objection could be raised if the Directors chose to take the unwise step of making the whole of it available for dividend paying purposes.

As regards the wasting assets question, there is a case which although it has not been mentioned has conveyed a general belief that all money laid out in mines may be treated as being expended in capital assets, and that no provision need be made in respect of it in the way of depreciation. I think you are all thinking of the case of *Lee vs. The Neuchatel Asphalt Company*. In the first place, I might tell you that the heading of that case in the English Law Reports is a wrong one, and does not represent the

true facts of the case; the case itself must be read. The doctrine there laid down, however, is that where the capital of a company is laid out in the original instance in acquiring a mine which has only a short term of years to run, you need not provide for a return of capital at the expiration of that lease; but it is distinctly stated in that particular case that that decision was given having regard to the articles of association of that special company, and you must bear in mind that money might be laid out similarly and by the articles of association of that company it might be compelled to replace the whole of the capital before the expiration of the lease. It would be a very unsafe doctrine to act upon the heading in that case as a correct one.

There was a case which bears upon the other point: the North and South Wales Banking Company case. I think it was there decided that, notwithstanding previous losses by reason of bad debts, dividends could still be paid. I think it has been laid down by judges in more than one case that there is no obligation on a company to replace capital that is lost before paying dividends. That is to say if in the ordinary course of business there has been a loss of assets, it is not necessary to make that good out of future profits before the resumption of dividends takes place. However good that may be in law it is a very unsound principle to act upon in practice. Therefore, it would be probably better for accountants to advise their clients not to go entirely on that law, but if they think it desirable to make use of it, only to do so to the extent of paying small dividends, and at any rate to make some effort to gradually replace the capital loss, notwithstanding the fact that the law does not require them in all cases to do so. I think in that particular case regard was had to the articles of association of that bank. There must have been in the mind of the judge in coming to a decision the special articles of association of the bank, because the articles of incorporation and by-laws must always be read most carefully in connection with the current law of the country or State relating to a case before they can be acted upon. Certainly in England it is deemed distinctly part of the auditor's duty to study the articles of association, especially upon those points which refer to the keeping of accounts, the methods in which dividends have to be paid, and the powers of directors, and any special clauses relating to auditors, and they must in all cases be studied and read in conjunction with the general law of the country.

In conclusion I would like to join with you in thanking Mr. Dickinson for his most able paper. I am sure there is not, as I have said, a single point with which any of us would venture to disagree, and it is a paper which would well deserve study when we have finished with the labors of this Congress. (Applause.)

CHAIRMAN.—Unless there is further discussion, the floor will be accorded to Mr. Dickinson for the purpose of replying to the questions raised.

MR. DICKINSON.—I must thank you very much indeed for the very patient way in which you have listened to me for a full hour on a very hot day, and for the very kind way in which you have received my paper. If that paper is of some little assistance to a further and more exhaustive study of the subject, it will have achieved all that I could possibly hope for.

I don't want Mr. Hyde to go away and think that any American accountant has an idea that single entry is the proper thing to have. Yet there are instances where it has been used for years without bad results. I have in mind one office where for forty or fifty years they never had anything but single entry balance sheets and they were never in anything but the most flourishing condition. I was able, a few years ago, to convince them of the error of their ways, and they put in a double entry system, which they admit is better, although it costs more.

Mr. Montgomery raised the point as to whether we had not possibly departed, in many systems adopted here, from the more simple forms of bookkeeping which might have served the same purpose. We have to remember that as long as there is no keen competition, and people are making large profits, it does not much matter whether they keep books at all. As long as they don't draw out all the money in bank and do a flourishing business they can go along without any books, but if you come down to the competition of to-day I don't believe for a moment that any concern can possibly stand for a long period of time unless they know with very great accuracy indeed what their cost of production is, and they cannot get at this without a very refined system of bookkeeping.

The Quebec law that Mr. Hyde mentioned, as far as I understand it, is identical with the one I mentioned in Connecticut, which provides for practically the same liability on the part of the directors and prohibits payment of dividends unless the whole of the capital of the Company is maintained intact. I could not find

any cases on that law except one which had some very special circumstances in it, and did not therefore throw much light. But short of any special statute I cannot find any law—any common law, which would uphold that principle and oblige the maintenance of the capital assets.

I was glad to hear that Mr. Hyde agrees with the method I suggested for providing for depreciation funds. I feel with him that the old practice of deducting depreciation from assets is very unsatisfactory.

I think Mr. Hyde also suggested the desirability of showing Good will separately in the balance sheet, with which I personally cordially agree, but if you go to the directors and tell them they must do it, in most cases they won't, and they often have a good deal of justification for their actions. I have in mind now a company in South Africa having a large asset of good will, paying about twenty-five per cent. dividends on the whole of the watered capital, where the assets have increased so much in value over the original cost that it is doubtful if the increase does not now almost entirely offset the amount paid for good will. You cannot very well say there is an asset of good will when it may quite well be represented by something more tangible.

Mr. Chase referred to the term fund. That is perhaps because I used the word in a different sense from that in which he did. Many discussions have taken place in England between accountants and directors and stockholders as to the use of that term "fund." I think a distinction ought to be made between "Fund" and "Fund Assets." I have always considered that the fund was the liability side and the assets are the investment of the fund, and, while there may be a good deal, perhaps, to be said on Mr. Chase's suggestion, it is not adopted generally, particularly in big corporations. I admit it is difficult very often to persuade your client that the fund is not represented by any specific assets, but is sunk in the general assets of the Company; and yet this is frequently the fact.

What was said as to the price of raw materials only illustrates what I said myself. You can lay down any number of principles of accountancy, but the difficulty is to adopt them in all cases. You have to be guided very much by the facts in each case.

Mr. Cooper raised an important question as to whether there is any legal decision or principle as to what should or should not be termed a subsidiary company. I don't think there is; I never

heard of it. We have to act on common sense principles and the law will follow. If we do not insist on this principle unscrupulous directors may put forward accounts which will mislead the public. The big railroad companies with which I have to do have for some years past admitted the principle that they must take up any loss which one of their subsidiary companies has made, and I think I am right in saying that one of the causes which brought about the railroad reorganizations in 1893 was that the large companies bought small companies and carried the investments as good assets, although many of these subsidiary companies showed large losses on their own balance sheets, which had to be met out of the current assets of the holding company, but were not provided for out of its profits. Such a policy could have only one result.

There was a question raised about the order of the captions in a balance sheet. I don't think it makes much difference whether the liquid or the fixed assets are placed first. Assets should be stated in the order of convertibility and whether the list begins or ends with cash is not important. The general practice in big corporations is to begin with fixed assets and follow on in order of convertibility.

Mr. Wright asked a question concerning reduction of capital. This should certainly be made to wipe out all previous losses, and dividends could be resumed out of subsequent earnings. I would like to say incidentally that I had occasion, in England, a good many years ago, to take the opinion of counsel on that point and it appeared to be very doubtful whether a company could, as a matter of fact, pay dividends out of earnings, although it had a large deficit arising out of previous years. Counsel then told us it could.

There is a point which Mr. Chase raised, and I am sorry to say that I did not get it.

MR. CHASE.—My point was that in handling small corporations where the depreciation has been taken care of in the books, the accountant in his ordinary practice is often required to certify to balance sheets in which no depreciation appears, and yet these accounts are most conservatively handled, and he can most appropriately certify to them.

MR. DICKINSON.—Of course that is one of the most difficult points. Some companies charge expenditures to profit and loss, which might have been properly charged to capital. When

they claim credit for this conservative policy the books contain no record to substantiate their claim, and I have frequently had to tell the officers that if they will keep their books in this way they must suffer when it comes to a consolidation.

I thank you very much for the way in which you have listened to my paper. (Applause.)

CHAIRMAN.—During the last two days, many of you, doubtless have met personally a gentleman who has been with us, and I know that some of you have been wondering why he was not included among those introduced to the Congress on Monday morning as delegates from foreign societies.

This gentleman, Mr. E. Van Dien, of Amsterdam, comes to us as a most welcome guest, but through some inadvertency he was not sent here by his Society. Mr. Van Dien, however, has been doing very excellent work in his own country for the advancement of the profession, and he has kindly consented this morning to say in just a few words to us something in reference to the work that has been done, and the status of accountancy in Holland.

MR. E. VAN DIEN.—Mr. Chairman and Gentlemen: Permit me to state that I did not come here as the representative of our Society. Your Secretary wrote me that a special invitation was given only to English speaking Societies of Accountants, and as you can understand that I am not an English speaking accountant and do not belong to an English speaking Society, our Society did not receive an invitation, but I came over here on my own account to meet you gentlemen and to learn what I could from you.

Let me tell you something about our profession in Holland. Before 1893, accountants' work was done by either ordinary bookkeepers or by bookkeepers' offices, or, finally, by English accountants, and I am sorry to add that still in these days some work is done by the latter. We do all we can to drive them out of our country, but it is so difficult, because they do their work so well that clients are afraid to change.

In 1893 we started the public accountants' business as a profession. After newspapers had spoken about accountancy and had explained what was meant by it, in almost every city public accountants were found.

That reminds me of the story told by Molière, the French writer, of a certain nobleman who wanted to complete his education, and engaged several professors to teach him, among others

a professor of literature. In the first lesson the professor told the nobleman that there were two means of expression—prose and poetry, and he was astounded to learn that all his life he had spoken prose. So many of those gentlemen I have just referred to were astonished to find that they were public accountants.

In 1895 we organized the Netherlands Institute of Accountants, and we started with about eighty members. Our institute is as nearly as possible copied from the English Institute. Of course there are differences. In our country the custom of putting initials after names is not known, and instead of this we divide the members into the first class and the second class, corresponding with the F. C. A., and the A. C. A. of the Institute. Every member who has passed the Examinations is a member of the second class, and after five years' practice he can become a member of the first class.

Later on those gentlemen who could not get a place in the Institute for one reason or another, founded the Netherlands Federation of Accountants, and they copied, as we did, the English societies and tried to improve upon what we had done. Those gentlemen who could not get a place in either the Institute or the Federation founded a Society of Bookkeepers and Accountants, and those gentlemen who could not get a place in either of these three founded a National Organization of Accountants and so on, so that we have now five societies of Public Accountants in our country. (Laughter and applause.)

Although we copy the English and American accountants, and although we study well, we know, for instance, Mr. Pixley's books as well as anyone here knows them, and we know all about the English and American Literature—I am sorry to say that the conditions where we live in our country do not allow many people to be what they ought to be—professional public accountants, devoted only to that profession, as many of them are bookkeepers from nine until two; after two and in the night they are public accountants. I don't mean to say that these gentlemen do not know the profession well; maybe they know as much of the profession as anybody knows about it; only it is a question of personal condition that they cannot devote themselves only to the profession of public accountancy, and they have to keep their places as bookkeepers.

I am glad to say that our Government is studying this matter of accountancy, and we hope the time will not be so far off that we

in Holland will have legal recognition. It is with great pleasure that I may state that although our laws do not yet recognize us, the lawmakers do. Municipalities, courts, and even the government itself use public accountants in accountancy matters, and finally I may say that our Secretary of State wrote me when he was told that I intended to meet this Congress, that he would be very much obliged to receive the report of the matters that were dealt with here.

Mr. Chairman, I thank you very much for giving me an opportunity to explain this to these gentlemen, and I hope to take to my country—I am sure I will take to my country—the best feeling and pleasantest recollection of what I have seen here. (Applause.)

CHAIRMAN.—I am sure the Chair states the feeling in the mind of every one of you when he expresses to Mr. Van Dien the sincere pleasure it has been to the Congress to have him with us, to associate with him during these three days, and to hear from him this morning as to the conditions existing in his own country.

The profession of the Public Accountant is a little different in some respects from most other professions. There is such an amount of detail in connection with our work that it is impossible for principals to handle matters without a well organized, capable corps of assistants, and the relationship of the principal to the assistant is one that has brought forth a good deal of thought, and the last word has by no means been said upon it as yet. The Committee in preparing the programme very wisely decided that the assistant should be included in this Congress, and that an opportunity should be given to assistants in the offices of the members of the profession in this country to prepare papers which were to be submitted to a Literary Committee; a prize of \$50 being offered for the best paper. These papers were submitted without the authors' names or other direct means of identification being attached to them. They were sent to the Secretary, and by him submitted to the members of the Literary Committee, each one of whom read every paper, and they came to a unanimous decision in awarding the prize. The number, I think, that was attached to the prize paper was 333, and upon looking up the index, which was kept separate and distinct, it was found that this number applied to a young man from Philadelphia who has been employed for a number of years in the office of one of the leading firms in that City. It is a very pleasant thought to me, indeed, that he comes from my own city and that I have his personal acquaintance

and friendship. I know that he is a self-made man, a graduate of that noble institution of ours, Girard College, and that he has, by hard work and careful preparation, passed the C. P. A. examination of the State of Pennsylvania and holds a certificate as a certified public accountant.

The prize paper will now be read, on "The Mode of Conducting an Audit," by its author, Mr. Walter A. Staub. (Applause.)

WALTER A. STAUB, C.P.A., of Philadelphia.—Mr. Chairman and Gentlemen: I wish to thank the Chairman for his very kind words in reference to me and the essay I have prepared. Of course you will understand I was myself much delighted to have been the recipient of the award, and especially that the decision of the Committee was unanimous.

Mode of Conducting an Audit.

By Walter A. Staub, C. P. A., of the Staff of Lybrand, Ross Bros. & Montgomery, Certified Public Accountants, Philadelphia.

Before proceeding to the consideration of the mode of conducting an audit, it may be well to inquire as to the purpose and object of making an audit. The reasons clients may have for wishing audits made are many and diverse.

Periodical examinations of the accounts of commercial and financial institutions, special examinations for prospective investors, investigations on behalf of creditors and trustees in bankruptcy, examinations to ascertain the cause of decreasing profits, exhaustive audits preparatory to installing improved systems of financial and cost accounts, and investigations of the accounts of public officials at the behest of dissatisfied citizens, are but a few of the many purposes which clients have in mind when desiring to have the accounts of an undertaking audited.

The object of the auditor should be, in the main, threefold: (1) Detection of fraud. (2) Discovery of errors of principle. (3) Verification of the mechanical accuracy of accounts. As has been pointed out by other writers, the attempted concealment of fraud must be accomplished by commission of either an error of principle or one in the mechanical work of the accounts; owing, however, to its importance, and often its predominating importance, the detection of fraud is conceded a separate place among the objects of an audit. From first to last it is the auditor's duty to be on the lookout for fraud. Nine times out of ten the client who determines upon

an audit suspects no one in his employ in the slightest of dishonesty, and yet experience teaches that in nine cases out of ten it is where they are least expected that fraud and dishonesty are discovered. This should not be taken to mean that all the employees in a client's office are to be suspected of being rogues masquerading as honest men—on the contrary every man is held to be innocent until proven to be otherwise—but it does mean that the auditor must be vigilant and not forget that occasionally, or we may even say frequently, “appearances are deceitful.” Errors of principle are as often found to be errors of omission as of commission, and it is here that an initial audit most often bears its fruit. As regards verifying the mechanical accuracy of accounts, it were, of course, preposterous to suppose that an auditor in the limited time at his disposal could be expected to verify every footing, every posting and all the other routine details of a set of accounts. The verification incident to and necessitated by the attainment of the first two objects is usually sufficient to reasonably satisfy him of the correctness of the accounts from this standpoint.

Having very briefly considered the purpose and object of making an audit, we may now profitably proceed to the question of the mode of conducting it. In the treatment of such a general subject as this, it is necessary to deal largely in generalities, leaving the particulars and their application to be determined by individual practice and experience. It is not the intention of the writer to pronounce any dictums or to lay down any hard and fast rules, but rather to touch upon the general lines of procedure which suggest themselves as being essential to a satisfactory investigation of a set of accounts.

When an audit is being made for the first time it will be of great advantage to the auditor to go thoroughly over the system in force, the methods employed to gather the information necessary to the proper administration of the accounting department, the manner in which it is treated after obtained, whether intelligently or otherwise; the safeguards, if any, against error, intentional or unintentional; further, whether in the case of manufacturing and mercantile enterprises any system of stock accounts is kept, and in the case of the former a cost system, and whether they fit into the scheme of the general accounts or are in any other way of assistance. It is also desirable that he familiarize himself, at least in a general way, with the business of his client, ascertaining in the case of a commercial undertaking, for instance, the articles manufactured or handled, the average rate of profit which is expected to be earned and the numerous other matters that will suggest themselves.

Succeeding this preliminary survey, the mode of procedure should be mapped out and this in considerable detail. It will, of course, not be possible to determine in advance all the work that should be done as the results and observations made during the progress of the audit will call attention to much of the detail which it may be desirable to go into, but there is no question that a well laid out plan will greatly facilitate and simplify the work in hand.

Ordinarily, the work of the audit will naturally run in two channels, viz., the verification of a balance sheet on a date specified and the examina-

tion of the profit and loss or equivalent account for a period or a number of periods ending with the date of the balance sheet.

A balance sheet is a statement of assets and liabilities as of a given date, hence an audit of it will embrace (a) the verification of the existence of the assets, also ascertaining whether any have been omitted, and, as far as it lies within the province of the auditor, their values, or at least of the *bona fides* of those whose statements of value are open to question and the methods of arriving at the same; (b) the verification of the existence and amounts of the liabilities and ascertaining most particularly that there have been no omissions, either of contingent, accrued or direct liabilities.

Of the assets the cash naturally suggests itself as the item which should be verified at the earliest possible moment. Bank balances should be proved by reconciliation of the balance per check book with the bank pass book, which should be settled at the time of the audit, or if there is any doubt as to the authenticity of the pass book, by procuring a certificate from the bank. Cash and checks on hand should be counted, the latter being carefully scrutinized as to date and also as to entry in cash book; if this precaution be omitted it is possible to conceal a shortage by submitting as part of the cash balance checks which have not yet been entered. Memoranda, I. O. U.'s, etc., should be noted, attention being given to the question of the authority of the cashier to make advances or other payments on memoranda. Where cash is on hand in several different departments, as for instance in a bank, it is important that, as far as practicable, the counting of the cash proceed simultaneously in all the departments, otherwise cash already counted in one department might very easily be transferred to another department, unknown, of course, to the auditor, included as part of the balance in the latter, and thus a shortage be concealed.

Accounts receivable are, in many instances, quite trying to the auditor and call for special attention both as to their genuineness and value. Where it is practicable for the auditor to send out to the debtors, or examine before they are sent out, statements of their accounts, this is the most satisfactory way of verifying them, and especially so if provision is made for acknowledgment (addressed to or marked for the auditor) of their correctness, although there is almost a certainty of some recipients not making any acknowledgment. In some cases, such as that of stockbrokers, this method is absolutely essential, as in no other way can the auditor satisfy himself that the accounts are correct as stated on the books, particularly in the item of collaterals which are carried on the accounts. In a mercantile business the balances should be earmarked as consisting of certain unpaid bills, the most recent in due date. "Slow pay" and overdue accounts and those on which payments are made in round sums with very infrequent settlements should be closely scrutinized, as it is possible that the operation of "washing" is being carried on, that is to say, payments are being received when due, but the earlier collections having been misappropriated such cash credits as appear on the books are made from subsequent collections, or in rare instances where the use of misappropriated funds is followed by success, from restitution. Bad or doubtful accounts should be investigated before being charged off to make sure that they have not been collected and the moneys misapplied. The old practice of charging off bad accounts to

profit and loss without keeping any further record of them is a poor one and is being gradually abandoned. Where bad accounts are charged direct to profit and loss instead of to a suspense account they should be entered in a memorandum book, together with all particulars relating to them, so that they can readily be followed up and any possible future value be realized.

As has already been noted, accounts receivable should be examined for their value as well as genuineness and a suitable reserve provided for such as are bad or doubtful. It is best to err on the safe side and make the reserve too large rather than the reverse. In "lean" years clients are very apt to omit making any reserve for doubtful debts, contending that they will be collected "some time," and the auditor cannot urge too strongly the necessity of making proper provision for them.

Where accounts consist mainly of instalments payable on sales made on the lease agreement plan—the article sold to become the property of the lessee upon payment of the final instalment—a tabulated record of these sales showing total amount of each sale, terms of payment, etc., is much more convenient and lends itself more easily to an intelligent examination than the ordinary form of ledger. To confirm the existence and amount of the accounts the agreements themselves, which are signed by the customer, may be examined and compared with the record. The question of doubtful debts is especially important here, as, with few exceptions, there is sure to be loss on some of the accounts.

Bills discounted and time and call loans, which form the largest item of a bank's assets, should be scheduled together with the collateral pledged with them, both the notes and collateral themselves being examined or verified by letter as to such items which may be in the hands of correspondents for collection or other cause. The bills discounted should be separated into one-name and two-name paper and the customer for whom discounted indicated. The value of collateral on loans should be shown as far as practicable; where it consists of securities listed on a stock exchange this is comparatively simple, but in the case of securities which are not listed, such as those of "close corporations," or warehoused goods other than those dealt in on "Change," it is not so simple a matter and in some instances not practicable for the auditor to attach any value.

The subject of inventories of materials and manufactured products is one of great importance in those businesses of which they form a part. Their verification seems to be somewhat akin to that of payrolls in so far that the most efficient check is to have a number of different people concerned in and held responsible for their makeup. Generally speaking, it is not possible for the auditor to verify the quantities of materials on hand, and he is, to this extent at least, at the mercy of those preparing the inventory. In some very unusual instances the auditor is requested to have one of his assistants present to verify the counting and weighing of the stock on hand, but even in such a case he cannot vouch for the quality of the materials or products. Where the force of clerks is large enough to permit it, the work of taking count of the quantities, pricing and making the extensions and footings should be assigned to separate employees, who should be

required to certify separately in writing to the work performed by each of them. The footings should be checked by the auditor's staff and the extensions at least roughly.

The inventories should be analyzed and compared with those of previous periods, both as to prices and total values, and any marked changes inquired into. Prices of raw materials can be verified by comparison with purchase invoices; where cost accounts are kept the prices of finished goods can be readily verified; if no cost accounts are kept it may be somewhat more difficult, but at all events it should be seen to that there is a margin between the inventory and selling prices of finished goods. The items forming the basis of valuing manufactured products should be scrutinized to see that no expenses which have not been actually incurred are included. For instance, in the case of a publishing house it is usually the rule to pay royalties to authors only on the books actually sold; to include the royalty as part of the cost of unsold books would not be correct unless the royalty had been credited on book account.

Under the heading of "Plant," which may be expanded to include rights of way and tracks of railway companies, together with locomotives, cars and other equipment, we have a subject which from its very size attracts much attention. It is the consensus of opinion among accountants that an auditor cannot be expected to act in the capacity of an appraiser and determine the actual value of the plant of the concern he is auditing. He should, however, examine very carefully all entries in the books relating to this account; the minutes should be consulted regarding all issues of capital stock which may be charged to it for purchase of plant or equipment; charges for extensions and additional machinery, etc., during the period under review should be looked into to make sure that no replacements are being charged to this account because they may happen to run into large amounts; sales of worn out plant items, such as old boilers, must be verified as having gone to credit of plant account and not to some operating account, unless the original cost or depreciated cost (if depreciation has been provided for) be charged off at the same time. Extensions are, at times, quite difficult of verification when the concern does its own construction work, as is largely the case with railway companies, and the materials and labor charges are of exactly the same nature as those for repairs and renewals. In such cases the character of the extension and the value should be certified to by the engineer or other competent authority.

Depreciation must be considered in relation to statement of property value. The number of instances in which depreciation is properly provided for forms an exceedingly small percentage of the grand total of business enterprises. The auditor cannot, of course, compel his client to provide for depreciation, but he should certainly call attention to its great importance, both as to its effect in properly stating the balance sheet and the earnings, and if no provision is made attention should specifically be called to the fact in the report submitted. The amount or rate of depreciation to be allowed in various undertakings cannot, of course, be gone into in the limited space available nor under such a general heading as that of the subject under discussion. That must be left to the writer who has more space and time at his disposal.

Investments in mortgages, stocks, bonds, etc., should be verified by examination of the securities or by correspondence if pledged as collateral on loans. Their cost can be verified by the vouchers for the expenditures made for their purchase. It is well to note the numbers of registered securities, so that at the time of the succeeding audit, if no change appears in the book accounts of the same, the auditor may satisfy himself that there has been no unauthorized use of them in the interval. It would be found convenient, when the investments are not liable to be disposed of for some time, to place them in envelopes sealed with the auditor's private seal and their contents marked on the envelopes by him. The unbroken packages do not then have to be examined during every audit.

Prepaid and accrued expenses, such as insurance, taxes, wages, etc., which may rank either as assets or liabilities, are usually not very difficult of verification. The unexpired insurance may be readily proven by scheduling the policies in force with the total premium paid on same and calculating the value that the unexpired portion of the term bears to the whole. When the fiscal year of a business subject to taxation is not coincident with the calendar year, or the period under review is not an even year, prepaid or accrued taxes from an item in the balance sheet: if prepaid their verification is a matter of simple arithmetic; if accrued and the amount of the assessment and the tax levy be known, it is likewise quite simple—if the current year's taxes are not yet known the preceding year's will have to be taken as a basis of calculation, due allowance being made for any expected increase in assessment or levy. Accrued wages may be roughly checked by comparing the proportion of the next succeeding payroll which the accrued period bears to the whole payroll period, and so on *ad libitum*.

The audit of the liabilities is not of less importance than the audit of the assets. This aspect of the examination demands that great care be taken, as liabilities are more often omitted from the balance sheet than assets. The usual items of liabilities are accounts and bills payable, bonds, mortgages, revenue collected in advance of being earned, such as discount on unmatured notes held by banks, subscriptions paid in advance, etc., and accrued expenses. The proving of accrued expenses has already been spoken of in the preceding paragraph and need not be dealt with again, except to say that the auditor should be certain that all accrued accounts of whatsoever nature have been included; the verification of revenues collected, but as yet unearned, is in general not very complicated and is generally more a matter of arithmetic than anything else.

As regards accounts payable, the most frequent error in practice is one of omission, and consists of bills for goods actually received and included in the inventory of stock on hand not being entered in the books during the same fiscal period. Where a good system of stock accounts is in use or a method of checking back a record of goods received with the purchase book or the invoices themselves this is not so liable to occur, but in a concern where neither of these systems obtains especial vigilance is needed on the part of the auditor to satisfy himself that no bills have been omitted. A good way of verifying the accounts payable is to check back the vendors' statements with the ledger, any bills appearing on the statements but not entered on the books being carefully scrutinized as to their dates and the

dates of the receipt of the goods, which latter should be subsequent to the date of the taking of the inventory, otherwise the bills should have been entered.

Unpaid notes per the bills payable book should be totaled and the aggregate compared with the ledger account. In the case of collaterals being pledged on the loans, the holders should be communicated with for confirmation of the loans and the collateral. This is especially important in the case of stock brokers and similar houses where the balancing of the stocks is an important feature of the audit.

In the matter of bonds or mortgages the minutes of the concern, if it be a corporation, should be consulted for authority bearing upon their issue, rate of interest, etc. The bond and mortgage should be read through to see what provisions regarding sinking funds, redemption, etc., may be contained therein, and, further, the auditor should see that these provisions are carried out. It might also be well to examine the county records for any other incumbrances on real estate appearing among the assets, although how far an auditor's duty extends in this direction is still an open question.

Contingent liabilities, such as endorsements on bills receivable discounted, should not be overlooked. They sometimes become direct and very live liabilities in short order.

Examination of the books and records pertaining to the issuance of capital stock should, at least, extend to the checking of the stock ledger trial balance and inspection of the stock certificate stubs and preferably also the transfer records. This latter is, however, sometimes of such volume that it is necessary to have it made the subject of a special examination. As with the issuance of bonds, the minutes should be examined for any action relating to issuance, retirement or exchange of capital stock.

The articles of co-partnership in private firms should be examined for the provisions relating to the investments to be made by the several partners, interest on capital and on withdrawals, division of profits, etc.

The audit of the accounts constituting the profit and loss account is partially covered by the work incident to auditing the items of the balance sheet. It is in this part of an audit that the greatest amount of detail is usually encountered. While this cannot always be said of financial institutions, the verification of those accounts constituting the balance sheet often requiring a more extended examination of detail than the profit and loss section, yet of manufacturing, mercantile and enterprises of like character, this is undoubtedly true.

Limited space only permits of some very general remarks in this connection. The entries in the cash book should be vouched; when the payments are all charged to personal accounts, or for such of them as are when this is only partially the case, paid checks may be accepted as sufficient vouchers, the invoices for purchases, etc., being examined and used to vouch the credits to the personal accounts. These latter usually come through a purchase book or voucher register, or where the system is antiquated are found in the journal. Checks which are drawn to "Bearer," "Cash," or to order of a bank in such form that the funds could be obtained by the bearer either in cash, due bill, etc., should, of course, not be accepted as final vouchers. A check to the order of payroll is of no value as a voucher

for wages payments, except in so far as it might imply that the drawer held himself responsible for the correctness of it; such a conclusion would, however, be rather far-fetched, as the person signing a check is not unusually one upon whom the examination of the payroll would devolve.

In the case of very large concerns it is not practicable for the auditor to examine all the vouchers. Even in such cases, however, it is well to vouch all payments which are charged direct to operative accounts. The best plan is to have all payments charged to personal accounts or a controlling account, such as "Vouchers Payable," and have all vouchers entered in a voucher register to the credit of personal accounts or the controlling account, the cash book and the voucher register to be kept by separate persons. By this method the voucher for each payment, except such few as it may be desired to charge direct in the cash book, and which can be readily examined by the auditor, is submitted to the scrutiny of a second party, who has no connection with the cash or bank account and who, except in the event of collusion with the cashier, would have no interest in putting through any fictitious vouchers.

In connection with the subject of vouching payments, that of payrolls may be spoken of. It is generally conceded that, as regards payrolls, the only safety is in numbers, and this, of course, with a good system to make the best use of the numbers. An auditor may verify the footings and in some cases be able to check back the payroll to the original time reports from which it is made up, but to accept any responsibility further than this is foolish in the extreme. Even in the instances where it might be possible to verify the payroll by other documents, the time required to do it would usually entail much greater expense than clients would care to pay.

The party making up the time should not be the same one who affixes the rate and makes the extensions, nor should either of these, where it is possible to avoid it, be concerned in the filling of the envelopes or the actual paying off. In some parts of the country, such as in the South, where thriftless negro labor is employed, the question of unclaimed wages becomes quite important. A good plan to take care of these is for them to be turned over to the treasurer, or some other authorized person, immediately upon completion of the paying off, to be entered by him in a book ruled to permit of the workman signing for his envelope when calling for it subsequently. After a sufficient lapse of time those still uncalled for should be returned to the general cash, being credited to an "Unclaimed Wages" account. From the book before mentioned, the auditor can easily see that no unclaimed wages are lost to the company or proprietor.

In practice the satisfactory auditing of the income will be found more difficult than that of the expenses. Here, too, a good system is the best assurance of the integrity of the accounts. The recording of the sales should not be committed to the charge of the same person who handles the cash collected. This will go far to insure the correctness of the sales record and obviate any intentional omissions. Where possible the auditor should verify the sales independently for at least a portion of the period under review. The circumstances of each particular situation must, of course, govern. In some cases the shipping book, which is kept in the factory or store, can be compared with the sales book. If a stock account of the pro-

duction is kept or can be constructed, as for instance at coal or ore mines, the sales can usually be verified, as to quantities at least, quite satisfactorily. In this connection the matter of "internal check," which is dwelt upon at length in most works on auditing, may be mentioned. Briefly stated, it consists largely in so disposing the office staff that there will in reality be an internal audit continually going on. In some cases this is arranged by changing the duties of the various clerks from time to time; *e.g.*, in a bank where there is more than one individual bookkeeper, it is well to change the bookkeepers from one ledger to another; where there is only one it is not always practicable to vary his duties, but the trial balances can occasionally be taken off by some one else and the customers' pass books balanced by some one other than the bookkeeper.

In other instances this is accomplished by having the work so divided that the work of one person is incomplete by itself and must dovetail into that of another before being complete, the theory being that only by collusion between two or more parties would it be possible to conceal dishonesty. In still other instances the duties of one of the office force are those of an auditor, he verifying much of the detail which it would not be practicable for the professional auditor to go into. In point, is the auditing of the income of railway companies, who need to have auditors constantly checking the income from freight and passenger traffic. The safeguards to be placed about payrolls and sales, which come under this head, have already been touched upon.

Income from securities presents no especial difficulty, as that collectible on bonds and mortgages can be determined from the securities themselves, while the dividends declared on stocks can usually be quite easily ascertained.

Miscellaneous income must be dealt with as the occasion demands; there are hardly any two businesses in which it can be verified in exactly the same way.

Regarding the footings, postings, etc., to be verified, this will, of course, vary with circumstances. As a general rule, the footings of all the books of original entry and of the nominal ledger accounts should be verified. All postings to the impersonal accounts and, at least, the credit postings (particularly the cash) to all other accounts should be checked. It goes without saying that the trial balance and its footings, as well of subsidiary ledgers as of the general ledger, should be verified.

A few words concerning the report upon the audit may not be out of place. The report should be clear and concise. Qualifications pertaining to the work or of any financial statements which may form a part of the report should be definitely expressed without any ambiguity. It may be noted that qualifications are not very desirable from a client's point of view and should only be made where there is good ground for so doing.

In conclusion, there will in the course of many audits be assets or liabilities, or classes of income and expenses to be verified which have not even been mentioned in this dissertation. The aim of the writer has been to illustrate the mode of conducting an audit by touching upon the methods of auditing the items which commonly appear in the balance sheet and profit and loss account which are submitted to the auditor for examination.

CHAIRMAN.—The Committee on Arrangements has done a great deal of able work in conjunction with the Secretary of the Congress and of the Federation, and it seems to the Chair that it is only fitting that the last word of this Congress should be said by the Chairman of that Committee. I therefore would like to ask Mr. Dickinson to come upon the platform and say a few words in summing up, before we adjourn.

MR. DICKINSON.—Mr. Chairman and Gentlemen: We are getting very near the lunch hour, and I cannot help feeling that many of you will think that at this stage of the proceedings lunch is more important than speeches.

I want, on behalf of the Committee on Arrangements, to thank you very much indeed for attending this Congress. As you all know, it is the first of its kind that has ever been held in this country, and I know that in years to come there will certainly be many more congresses of accountants. (Applause.)

To show you how successful, from the point of view of the Committee, the Congress has been, I would like to say that when we first discussed the subject, we thought that if we could get fifty accountants here we should do well. I understand there have been actually *eighty-three* accountants present, many guests and visitors and about twenty-five ladies. I think we may say that we have at least doubled the anticipations that the Committee formed, and I am quite sure that the Committee and the whole profession ought to be and are very much indebted to all of you gentlemen who have come, many of you from long distances, to take part in these proceedings.

I have heard only one criticism on the whole Congress, and that I am afraid is not only justified, but it is one to which accountants should never plead guilty: that is, we began an hour late, and we have been keeping an hour late ever since, including the dinner last night.

I had the pleasure of nominating Mr. Sterrett as Chairman of the Congress, and I know you will agree with me that whatever the shortcomings of the Committee may have been in other ways, they certainly picked out the right man to fill the Chair at this Congress. (Applause.) Mr. Sterrett began with a most interesting address, and from beginning to end I don't think it contained one single controversial point, and was such a model for a Chairman's address that even if discussion had been in order we could have found no controversial points to discuss. He has kept us all

in order, and has enforced the rules of the Congress with the greatest tact and courtesy. I want to ask you all to join in a hearty and cordial vote of thanks to Mr. Sterrett for his action as Chairman of this Congress.

MR. COOPER.—Mr. Dickinson, Chairman of the Committee; Gentlemen: My original thought was that we should tender Mr. Sterrett a vote of sincere thanks for acting as Chairman. I accept the suggestion you make and second your motion with the most hearty good will.

I have known Mr. Sterrett now for over two years as a member of the Federation, and I know that in every move of that Federation he has been a most active participant.

I ask the Congress to join in voting our most hearty thanks to Mr. Sterrett.

MR. PIXLEY.—Before you put that resolution, Mr. Chairman, on behalf of the foreign visitors of the Association allow me to say one word on the subject. I am sure that the manner in which the proceedings have been conducted reflects the greatest credit on all those concerned with this Congress. On behalf of the foreign representatives I wish to thank the American members of the Congress for the very kind hospitality you have extended to the foreign visitors, and I am sure we shall return and report to our respective bodies the very admirable way in which these proceedings have been conducted, and the very kind way in which their delegates have been received. (Applause.)

(The resolution of thanks to Mr. Sterrett was unanimously carried by a rising vote and a hearty round of applause.)

CHAIRMAN.—It has been moved that we adjourn, but before putting the motion I want to thank you most cordially for the courtesy which you have just extended to me and for the many courtesies and kind considerations you have accorded to the Chair throughout these somewhat trying sessions. The weather certainly has been very much against us, although I feel that in a way it has been rather a good thing, because it has shown how much in earnest we are, and if we can stand this sort of weather and do the work we have done, we can stand almost anything. I thank you, gentlemen.

We will now adjourn to "The Alps" for luncheon.

LADIES ENJOY AN AUTOMOBILE RIDE.

A party of the ladies accompanying members of the Congress enjoyed an automobile ride through a portion of the residence district of Saint Louis, Forest Park and the World's Fair Grounds, arriving at "The Tyrolean Alps" shortly before 2 p. m.

LUNCHEON AT "THE TYROLEAN ALPS."

The entire Congress and a great many ladies met in the "Town Hall" at "The Tyrolean Alps" for luncheon and enjoyed a most excellent repast as the guests of the Federation of Societies of Public Accountants in the United States of America, under whose auspices the Congress had been held.

The Banqueting Hall in the Tyrolean "Town Hall," a spacious and lofty room, capable of seating three hundred people, had been reserved for the party, and here the Luncheon was spread, the tables being beautifully decorated. An unusual and highly enjoyable feature of the entertainment was the singing of a band of Tyrolean singers, whose services had been provided for the occasion through the courtesy of Mr. William S. Salway, Secretary of the Lüchow & Faust Restaurant Company.

After the Luncheon had been despatched and cigars had been lighted, the following remarks were made:

The Chairman (JOSEPH EDMUND STERRETT).—Ladies and Gentlemen: Before we adjourn I believe Mr. Wilkinson would like to say just a few words.

GEORGE WILKINSON (Secretary of the Federation).—Mr. Chairman, Ladies and Gentlemen: I wish to thank you on behalf of the Federation of Societies of Public Accountants for your attendance here to-day. It is a genuine pleasure, I assure you, to all the members of the Executive Board of the Federation, who are here present, to see you all at this Luncheon. When we circulated a vote by mail to the members of the Board throughout the country, saying that we proposed to hold a luncheon at "The Tyrolean Alps" and that we wished to invite everybody who attended the Congress, with their ladies, there was not a dissenting vote; moreover, the votes came back much earlier than they usually do, saying "aye," and here we are!

I also wish to say on behalf of the Committee on Arrangements

for holding this Congress, that we are all very much gratified indeed by the large attendance and the great enthusiasm manifested at our several meetings. We are particularly gratified that there are so many ladies present. It was said at the banquet last night at the Mercantile Club, that, while there are many points that will probably be debated for years,—points touched on in the meetings of the Congress as to one technical matter and another in connection with accounts,—there is one question that will never be debated, and that is as to whether the ladies should be invited to attend the Accountants' Banquet. We are all very glad to have the ladies here with us, and we hope that the next time we hold a Congress, we will have more ladies than ever, because several of these bright fellows who are bachelors to-day will shortly overcome this defect. Included in that number is my right bower, friend and colleague, Mr. Robert H. Montgomery. I am glad to announce to you, that he is to overcome the great drawback, that he has suffered on this occasion, next month; and that when we meet again, there will be a Mrs. Montgomery.

I wish to express to you the great obligation that I feel to my friend Mr. Montgomery for the help he has given the organization. There has never been a moment that he was not ready to help. During these last two years he has been constantly ready to aid the Secretary of the Federation, and no service was too much to ask of him, no personal inconvenience was too great. And now, Ladies and Gentlemen, and Mr. Chairman, I wish to speak a word in regard to my colleague on the Entertainment Committee, Mr. George Oliver May, of St. Louis (Applause and cheers for Mr. May). Mr. May months ago wrote us that he had secured Governor Francis for our meeting, that he had secured the Mayor of the City, the Honorable Rolla Wells, for our evening reception, that he had arranged for the banquet at the Mercantile Club, and other great and wonderful things. To make a long story short, Mr. May "delivered the goods" (Applause). We had Governor Francis on Monday, and he gave us a most interesting address, we are all very glad he came, and sorry only that some poor fellows did not get there in time to hear the Governor speak. Then we had the Mayor, and he was a right good Mayor and a fine gentleman. He received us royally and gave us a most pleasant evening. And then we had the banquet at the Mercantile Club, and of all the things we have enjoyed

I don't believe that any of us have enjoyed anything more, unless we except this luncheon, than the banquet we had last night.

I wish to thank you indeed for the very kind way in which you have received the mention of my name, and for the cordial manner in which you have backed up every effort we have put forth to make this Congress a success.

I cannot take up any more of your time because our good friends the Filipinos are waiting for us.

(Calls for "Montgomery")

ROBERT H. MONTGOMERY, (Treasurer of the Federation).—Mr. Chairman, Ladies and Gentlemen: I thank you most heartily for this very kind expression of your good will. In view of what has been intimated by Mr. Wilkinson I can but think it has been chiefly due to the fact that I am to be married very soon, and as it is that alone which entitles me to your consideration I will wait until there is a Mrs. Montgomery before coming before your notice again. (Applause.)

(Calls for "May")

GEORGE OLIVER MAY (of the Entertainment Committee).—I think you should call again the name of Mr. Montgomery. He stands next to Mr. Wilkinson in making this Congress a success. He has not had his fair share of the floor while I have had my full share. Under the circumstances I think it impossible for me to say anything more except to express my deepest appreciation of your kind reception of my name. (Applause.)

(Calls for "Dickinson.") (Mr. Dickinson is greeted with cheers.)

ARTHUR LOWES DICKINSON, (Chairman of the Committee on Arrangements).—Mr. Chairman, Ladies and Gentlemen: I thank you very much indeed for the reception you have given me. I think I have talked so much, since we started here, that the best I can tell you now is to go to the Philippines as quickly as possible. I really cannot add anything to what I have said before, except to repeat something over again. Perhaps I may repeat on behalf of the whole Committee that the attendance has far exceeded anything we had expected, and it augurs well for the success of future Congresses, where I hope we will have two or three times the number of members present that we have now. I thank you very much. (Applause.)

THE CHAIRMAN: Nothing remains for the Chair to do but to

thank you for your presence here and for your kind consideration, and to express the hope that this Congress of Accountants may be the first of a long series which we may be permitted to hold from year to year.

I now declare this Congress adjourned, without day.

After the Luncheon at "The Alps" many of the ladies, visitors and members of the Congress took the Intramural to the Philippine Exhibition, where they were shown this extensive exhibit, in a most understanding manner, by the heads of the three principal departments, whose services had been very kindly placed at the disposal of the Congress through the courtesy of Dr. Gustav Niederlein.

Thus ended the first Congress of Accountants ever held in the United States of America.

The Society of Accountants & Auditors.

(INCORPORATED 1885.)



*4. King Street
Cheapside.*

London. 13th Sept., 1904
E.C.

TELEPHONE N° 346, BANK TELEGRAPHIC ADDRESS "IMPERSONAL LONDON"

ALL LETTERS TO BE ADDRESSED
TO THE SECRETARY

Geo. Wilkinson, Esq., C.P.A.,
Secretary, Federation of Societies of Public
Accountants in the United States
of America,
52 Broadway, New York

Dear Mr. Wilkinson,

I am requested to convey to you the
enclosed Resolutions passed by the Scottish and
Irish Branches of this Society.

Hoping to have the pleasure of seeing you before
this mail is delivered,

I remain,

Yours very truly,

Secretary.

THE SOCIETY OF ACCOUNTANTS AND AUDITORS
(INCORPORATED 1885)

Scottish Branch



ROBERT A. MARR
INCORPORATED ACCOUNTANT
SECRETARY AND TREASURER

44 HANOVER STREET

Edinburgh 9th Sept., 1904

Copy Resolution of the Scottish Council.

Whereas Mr. James Martin, F.S.A.A., F.S.A., has been deputed by the General Council of the Society of Accountants and Auditors (Incorporated 1885), sitting in London, to attend officially the Congress of Accountants to be held at the St. Louis Exhibition on September 26th, 27th and 28th, 1904.

Resolved that the Scottish Branch takes this opportunity to express its interest in the welfare of American professional Accountancy, and to express its sincerest wishes for the success of all Scottish-American Accountants in Conference at the Congress, and resident and practising in the United States and the Dominion of Canada.

Resolved that the foregoing Resolution be placed on the records of the Scottish Branch of Incorporated Accountants, and that Mr. Martin be requested to convey these resolutions to the Congress of Accountants.

Signed at Edinburgh.
9th September, 1904.

D. J. MacK. President

Robert A. Marr Secretary

The Society of Incorporated Accountants and Auditors in Ireland.

Sec. Secretary:
F. W. KENNY, A.S.A.A.

31 COLLEGE GREEN,

DUBLIN, 12th Sept. 1904

COPY of Resolution passed at Committee Meeting
of the Society of Incorporated Accountants
and Auditors in Ireland held 12th Sept. at
12 o'clock at the offices of the Society.

RESOLVED:—

“That this Committee do hereby express
“their gratification with the invita-
“tion to the Conference of Accountants
“at St. Louis, tendered to Mr. James
“Martin, the Secretary of the Council,
“and that Mr. Martin be asked to convey
“this resolution expressing the Irish
“Committee's interest in the “profes-
“sional” welfare of all Irish-American
“Accountants attending and represented
“at the Conference, and that he also be
“asked to convey the best wishes of the
“Committee to the Canadian Accountants’
“Societies, whom they understand he
“intends to visit”.

Edw. Stevens President.
F. W. Kenny Secretary.

List of Persons who Registered as Members of the Congress, and Their Addresses.

HENRY BARBER,	18 E. Wellington Street,	Toronto, Can.
HOWARD C. BECK,	Deputy City Comptroller	Detroit, Mich.
LOUIS BETZ,	City Comptroller,	St. Paul, Minn.
VERNER D. BIERMAN,	16 E. Broad Street,	Columbus, Ohio
FRANK M. BOUGHEY,	429 Monadnock Block,	Chicago, Ill.
W. H. BROOK,	Majestic Building,	Detroit, Mich.
JOHN H. BROWN,	First National Bank Bldg.,	Chicago, Ill.
P. L. CATTANACH,	304 Stock Exchange Bldg.,	St. Louis, Mo.
F. A. CLEVELAND,	30 Broad Street,	New York City
HARVEY S. CHASE,	27 State Street,	Boston, Mass
W. T. COLE,	2731 Archer Avenue,	Chicago, Ill.
JOHN ALEX. COOPER,	First National Bank Bldg.,	Chicago, Ill.
JOHN E. COOPER,	201 Orange Avenue,	Cranford, N. J.
A. LOWES DICKINSON,	54 William Street,	New York City
EDWARD S. ELLIOTT,	70 Randolph Bldg.,	Memphis, Tenn.
JOHN EVERETT,	145 La Salle Street,	Chicago, Ill.
DE ROY S. FERRO,	30 Broad Street,	New York City.
LEON O. FISHER,	Williamson Bldg.,	Cleveland, Ohio
WILLIAM H. FOSTER,	141 Broadway,	New York City
S. B. FOSTER,	Bartholomay Brewing Co.,	Rochester, N. Y.
BENJAMIN FRANKLIN, JR.,	Lincoln Trust Building,	St. Louis, Mo.
PERCY G. GOODE,	530 California Street,	San Francisco, Cal.
J. S. M. GOODLOE,	16 East Broad Street,	Columbus, Ohio
J. P. GOODWIN,	54 William Street,	New York City
JOHN C. GRABBE,	McMannus Building,	Davenport, Iowa
J. H. GREENHALGH,	Ballinger Building,	St. Joseph, Mo.
DAVID L. GREY,	Stock Exchange Building,	St. Louis, Mo.
CHAS. G. HARRIS,	Sixth & Main Streets,	Louisville, Ky.
CHAS. H. HIGHLEY,	628 Empire Building,	Atlanta, Ga.
G. I. HODGES,	514 Rialto Building,	St. Louis, Mo.
EDMUND HURLBATT,	Stock Exchange Bldg.,	St. Louis, Mo.
JOHN HYDE,	205 St. James Street,	Montreal, Can.
H. K. JONES,	70 Randolph Bldg.,	Memphis, Tenn.
LAURENCE A. JONES,	138 Washington Street,	Chicago, Ill.
J. PORTER JOPLIN,	238 La Salle Street,	Chicago, Ill.
J. H. KAUFFMAN,	Citizen's Bank Bldg.,	Canton, Ohio
H. A. KELLER,	New Hayden Building,	Columbus Ohio
GUY H. KENNEDY	Traction Building,	Cincinnati, Ohio
W. T. KERNAHAN,	17 Gould Street,	Toronto, Can.
J. P. KERRIGAN,	117 State Street,	Chicago, Ill.
E. G. H. KESSLER,	616 Frisco Building,	St. Louis, Mo.
H. L. KING,	415 Lincoln Trust Bldg.,	St. Louis, Mo.

GEO. R. LAMB,	16 East Broad Street,	Columbus, Ohio
WM. M. LYBRAND,	Stephen Girard Building,	Philadelphia, Pa.
WILLIAM C. LYNNE,	421 Wood Street,	Pittsburg, Pa.
W. R. MACKENZIE,	208 Worcester Block,	Portland, Ore.
F. H. MACPHERSON,	16 Sandwich Street,	Windsor, Can.
HENRY C. MAGEE,	Cor. 3rd & Shipley Sts.	Camden, N. J.
CHAS. J. MARR,	1730 Tribune Building,	Chicago, Ill.
JAMES MARTIN,	4 King Street, Cheapside,	London, E.C.Eng.
J. E. MASTERS,	10 Wall Street,	New York City
GEORGE O. MAY,	Stock Exchange Bldg.,	St. Louis, Mo.
JAMES G. MACGREGOR,	Monadnock Building,	Chicago, Ill.
J. ALBERT MILLER,	Traction Building,	Cincinnati, Ohio
A. F. MITCHELL,	69 St. Francis Xavier St.,	Montreal, Can.
FRANK MITCHELL,	Stock Exchange Building,	St. Louis, Mo.
R. H. MONTGOMERY,	43 Exchange Place,	New York, N. Y.
W. J. MUNSTER,	Carlisle Building,	Cincinnati, Ohio.
JOHN B. NIVEN,	30 Broad Street,	New York City
FRANCIS W. PIXLEY,	58 Coleman Street,	London, Eng.
ALFRED G. PLATT,	503 California Street,	San Francisco, Cal
JOSEPH M. PUGH,	516 Stephen Girard Bldg.,	Philadelphia, Pa.
ERNEST RECKITT,	802 Marquette Building,	Chicago, Ill
W. E. REID,	434 Marquette Building,	Chicago, Ill.
GEO. L. ROLLINS,	Deputy City Comptroller,	St. Joseph, Mo.
ADAM A. ROSS, JR.,	Stephen Girard Building,	Philadelphia, Pa.
A. F. C. ROSS,	1766 Notre Dame Street,	Montreal, Can.
JOHN W. ROSS,	1766 Notre Dame Street,	Montreal, Can.
ELIJAH W. SELLS,	30 Broad Street,	New York City
CHRISTIAN SENFT,	4128 Delmar Avenue,	St. Louis, Mo.
E. G. SHORROCK,	427 Pioneer Building,	Seattle, Wash.
ALLEN R. SMART,	Royal Insurance Building,	Chicago, Ill.
W. A. SMITH,	70 Randolph Building,	Memphis, Tenn.
ENOS SPENCER,	Sixth & Main Streets,	Louisville, Ky.
WALTER A. STAUB,	516 Stephen Girard Bldg.,	Philadelphia, Pa.
J. E. STERRETT,	Penn Mutual Building,	Philadelphia, Pa.
J. GORDON STEELE,	304 Stock Exchange Bldg.,	St. Louis, Mo.
JULIUS F. STONE,	16 E. Broad Street,	Columbus, Ohio
CHAS. SWEETLAND,	613 Century Building,	St. Louis, Mo.
THOMAS E. TURNER,	Sixth & Main Streets,	Louisville, Ky
GEO. A. TURVILLE,	1730 Tribune Building,	Chicago, Ill
WILLIAM TUTTLE,	1730 Tribune Building,	Chicago, Ill
E. VAN DIEN,	127 Heerengracht,	Amsterdam, Hol.
E. E. VON ROSEN,	1224 Chemical Building,	St. Louis, Mo.
F. E. WEBNER,	Traction Building,	Cincinnati, Ohio
GEO. R. WEBSTER,	1730 Tribune Building,	Chicago, Ill.
H. T. WESTERMANN,	514 Rialto Building,	St. Louis, Mo.
GEORGE WILKINSON,	52 Broadway,	New York City
C. M. WILLIAMS,	308 New York Block,	Seattle, Wash.
FRANCIS A. WRIGHT,	421 American Bank Bldg.,	Kansas City, Mo.
FRANCIS A. WRIGHT, JR.,	421 American Bank Bldg.,	Kansas City, Mo.

Guests at the Banquet.

MR. ALTENBERND,	MRS. HIGHLEY,	ALFRED G. PLATT,
MRS. ALTENBERND,	MR. HILARD,	FRANCIS WM. PIXLEY,
W. E. ANDREWS,	MAJ. JOHN HINKLEY,	L. G. POWERS,
MRS. ANDREWS,	G. I. HODGES,	JOSEPH M. PUGH,
CAPT. PERCY ATKIN,	MR. HOLMAN,	MRS. PUGH,
HENRY BARBER,	MR. HUTTIG,	ERNEST RECKITT,
HOWARD C. BECK,	JOHN HYDE,	MRS. RECKITT,
LOUIS BETZ,	MRS. HYDE,	ADAM A. ROSS, JR.,
F. M. BOUGHEY,	LAURENCE A. JONES,	MRS. A. A. ROSS,
J. A. BOVARD,	J. PORTER JOPLIN,	A. F. C. ROSS,
MRS. BOVARD,	J. H. KAUFFMAN,	JOHN W. ROSS,
HARVEY S. CHASE,	H. A. KELLER,	MRS. SCHROERS,
MRS. CHASE,	GUY H. KENNEDY,	ELIJAH W. SELLS,
DR. F. A. CLEVELAND,	MRS. KENNEDY,	E. G. SHORROCK,
JOHN ALEX. COOPER,	W. T. KERNAHAN,	L. M. SIMPSON,
MRS. COOPER,	MISS KERNAHAN,	ALLEN R. SMART,
MISS COOPER,	H. L. KING,	MRS. SMART,
A. LOWES DICKINSON,	GEORGE R. LAMB,	ENOS SPENCER,
MRS. DICKINSON,	WILLIAM M. LYBRAND,	WALTER A. STAUB,
MR. DOWNEY,	MRS. LYBRAND,	MRS. STAUB,
MRS. DOWNEY,	WILLIAM S. LYNNE,	JOS. EDMUND STERRETT,
REV. E. DUCKWORTH,	W. R. MACKENZIE,	MRS. STERRETT,
JOHN EVERETT,	MRS. MACKENZIE,	LOUIS STOTZ,
LEON O. FISHER,	F. H. MACPHERSON,	B. H. TAUSSIG,
S. B. FOSTER,	MRS. MACPHERSON,	MRS. TAUSSIG,
MRS. FOSTER,	HENRY C. MAGEE,	J. C. TUCKER,
WILLIAM H. FOSTER,	MRS. MAGEE,	G. E. TURNER,
A. R. FOOTE,	J. C. MARR,	E. VAN DIEN,
BENJ. FRANKLIN, JR.,	MRS. MARR,	MRS. VAN DIEN,
MR. FULLER,	JAMES MARTIN,	F. E. WEBNER,
MRS. FULLER,	MRS. MARTIN,	GEORGE R. WEBSTER,
PERCY G. GOODE,	J. C. MASTERS,	F. WEIR,
J. S. M. GOODLOE,	GEORGE O. MAY,	MRS. WEIR,
MR. GREIG,	MRS. MAY,	H. T. WESTERMANN,
MRS. GREIG,	MISS MENCH,	MRS. WESTERMANN,
DAVID L. GREY,	JAMES ALBERT MILLER,	GEORGE WILKINSON,
CHAS. G. HARRIS,	A. F. MITCHELL,	MRS. WILKINSON,
FRANK R. HENRY,	ROBERT H. MONTGOMERY,	CYRIL M. WILLIAMS,
MRS. HENRY,	JOHN B. NIVEN,	FRANCIS A. WRIGHT.
CHAS. H. HIGHLEY,	J. C. OLIVER,	

Subscribers to the Guarantee Fund.

J. D. Anderson	Wm. M. Lybrand
J. T. Anyon	W. R. Mackenzie
Arthur Bently	F. J. MacRae
A. L. Berdoe	C. J. Marr
Thos. L. Berry	Geo. O. May
Geo. Black	J. A. Miller
Frank M. Boughey	W. A. Milligan
Fred. L. Brauns	E. M. Mills
Wm. H. Brook	Robt. H. Montgomery
California Society of C. P. A.	H. A. Munster
Geo. S. Chase	Robt. Nelson
Harvey S. Chase	John B. Niven
John H. Clegg	C. W. O'Donnell
Leonard H. Conant	F. K. Parke
John A. Cooper	LeRoy Parker
A. L. Dickinson	A. H. Pogson
H. A. Dunn	Ernest Reckitt
A. W. Dunning	Francis A. Roberts
Jas. W. Fernley	Adam A. Ross, Jr.
Leon O. Fisher	T. Edward Ross
Benj. Franklin, Jr.	W. E. Seatree
E. Y. Gallaher	E. W. Sells
J. S. M. Goodloe	Allen R. Smart
Ed. E. Gore	Chas. E. Sprague
Eugene Greenway	John R. Sparrow
David L. Grey	Ed. Stanley
W. E. Gridley	C. V. Starkloff
C. C. Hall	J. E. Sterrett
Chas. O. Hall	H. G. Stockwell
A. J. Hammerle	J. Sylvanus
Rupert S. Hughes	Max Teichmann
Laurence A. Jones	H. M. Temple
J. Porter Joplin	Col. J. A. Tompkins
J. H. Kauffman	Chas. N. Vollum
H. A. Keller	Robt. Vollum
J. N. Kelly	F. E. Webner
Guy H. Kennedy	Geo. R. Webster
C. W. Knisely	Wendell & Greene
Kuchler & Hehl	C. H. Wentzel
Karl L. Lee	H. T. Westermann
John Leith	Geo. Wilkinson
John R. Loomis	John J. Williams
E. W. Lovejoy	H. W. Wilmot
Chas. S. Ludlam	Francis A. Wright

Committee on Arrangements

A. LOWES DICKINSON, M. A., F.C.A., C.P.A., of New York City,
Chairman

THOMAS L. BERRY, C.P.A., of Baltimore
WM. H. BROOK, of Detroit
GEO. S. CHASE, of Boston
W. C. CHIDESTER, C.P.A., of Tacoma
JOHN H. CLEGG, of Detroit
BENJ. FRANKLIN, JR., of Saint Louis
HERBERT F. FRENCH, of Boston
J. S. M. GOODLOE, C.P.A., of Columbus
A. J. HALTIWANGER, of Atlanta
LESTER HERRICK, C.P.A., of San Francisco
CHAS. H. HIGHLEY, of Atlanta
GUY H. KENNEDY, of Cincinnati
WM. M. LYBRAND, C.P.A., of Philadelphia
GEO. O. MAY, C.P.A., of Saint Louis
ROBT. H. MONTGOMERY, C.P.A., of New York City
JOHN B. NIVEN, C.A., C.P.A., of New York City
A. G. PLATT, C.P.A., of San Francisco
ERNEST RECKITT, C.P.A., of Chicago
ELIJAH W. SELLS, C.P.A., of New York City
ALLEN R. SMART, C.P.A., of Chicago
J. E. STERRETT, C.P.A., of Philadelphia
ARTHUR W. TEELE, C.P.A., of New York City
MAX TEICHMANN, C.P.A., of Baltimore
HERBERT M. TEMPLE, of Saint Paul
CHAS. N. VOLLUM, C.P.A., of Philadelphia
H. T. WESTERMANN, of Saint Louis
H. W. WILMOT, A.C.A., C.P.A., of New York City
GEORGE WILKINSON, C.P.A., of New York City, *Secretary*

Executive Sub-Committee

A. LOWES DICKINSON	JOHN B. NIVEN
ELIJAH W. SELLS	ROBERT H. MONTGOMERY
	GEORGE WILKINSON

Transportation Sub-Committee

J. S. M. GOODLOE	GUY H. KENNEDY
ALLEN R. SMART	ELIJAH W. SELLS

Literary Committee

ELIJAH W. SELLS	ERNEST RECKITT
H. W. WILMOT	WM. M. LYBRAND

Reception Committee

A. LOWES DICKINSON	ELIJAH W. SELLS
ALLEN R. SMART	GEORGE O. MAY

Local Sub-Committee, (Saint Louis)

BENJAMIN FRANKLIN, JR.	H. T. WESTERMANN
GEORGE O. MAY	GEORGE WILKINSON

Entertainment Committee

GEORGE O. MAY	GEORGE WILKINSON
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STATEMENT OF THE ACCOUNTS OF THE CONGRESS OF ACCOUNTANTS

HELD AT THE WORLD'S FAIR, SAINT LOUIS

September 26, 27, 28th, 1904

Under the Auspices of

THE FEDERATION OF SOCIETIES OF PUBLIC ACCOUNTANTS
IN THE UNITED STATES OF AMERICA

As at December 15th, 1904

GUARANTEE FUND

Total amount subscribed by 110 Accountants..... \$4,000.00

Whereof called by Committee on Arrangements 87½%. 3,500.00

EXPENSES

Amount paid to date, after deducting sums recoverable
from Members of Congress, per Statement appended. \$3,071.45

BALANCE..... \$428.55

Which consists of:—

Subscriptions not yet paid..... \$375.60

Other sums due by Members of Congress..... 34.30

Cash in Bank..... 38.66

\$448.56

Less amounts over-remitted on Guarantee Fund 20.01

Difference as above.... \$428.55

(Signed) ROBERT H. MONTGOMERY,
Treasurer.

NEW YORK, 19th December, 1904.

Having examined the accounts of the Treasurer of the Congress of Accountants, held at Saint Louis, 26th-28th September, 1904, and compared them with the relative vouchers and other evidences—we beg to report that we have found the same correct and that the foregoing Abstract and the Summary of Expenses appended, are true and accurate Statements thereof, covering all disbursements to 15th December, 1904. We further report that all vouchers for payments bear evidence of the joint authority of the Chairman and Secretary of the Committee on Arrangements.

(Signed) J. R. LOOMIS, C. P. A.
J. B. NIVEN, C. P. A.
Auditors.

CONGRESS OF ACCOUNTANTS

STATEMENT OF EXPENSES OF THE CONGRESS

PRELIMINARY EXPENSES:

Exploitation, Newspapers, Committee's Expenses, Traveling Expenses.....	\$427.85
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PRINTING, STATIONERY:

Official Programs, Notices, Announcements, Envelopes	589.08
--	--------

POSTAGE, TELEGRAMS, TELEPHONE CALLS:

and similar out-of-pocket incidentals.....	324.73
--	--------

ENTERTAINING INVITED GUESTS, Etc.:

Automobile Rides, Lunches, World's Fair Admission Tickets.....	207.20
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Gross amount expended on the above... \$294.20
Less Recovered from Members of Congress. 87.00

BANQUET:

Banquet Tickets and Wines for Guests, Cigars for all at Banquet, Souvenir Menu Cards, Fees to Waiters, Music, Decorations.....	560.15
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Gross amount expended on above..... \$1,146.30
*Less Banquet tickets sold to Members of
the Congress and Wines collected for.... 586.15*

EXPENSES OF HOLDING THE EVENING RECEPTION:

Use of Hall and Refreshments, Orchestra, Singer, Pianist, Floral Decorations, Fees.....	396.50
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CLERICAL HELP AND STENOGRAPHY:

Assistant Secretary for six weeks, (S. H. Crawford) Stenography (outside work only), Reporting Congress Proceedings, Suppers for clerks working late without remuneration.....	414.96
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EXPENSES OF CONDUCTING THE MEETINGS:

Decorations for Hall, Platform, Janitor service, Tickets, Rent of Rooms at Headquarters' Hotel, etc.....	146.75
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PRIZE AWARDED FOR BEST ESSAY:

(Walter A. Staub, C. P. A.).....	50.00
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EXCHANGE on Remittances from Guarantors.....	4.73
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TOTAL paid up to date (see Note below)	<u>\$8,071.45</u>
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NOTE:—The Secretary and Treasurer report that there are some further expenses to be paid which will amount to approximately \$350.00, including for distributing the printed copies of the record and photographs; also for providing copies of these for invited guests and Presidents of Foreign Accounting Societies.

